

# **PRESIDENT CLINTON'S FISCAL YEAR 1995 BUDGET PROPOSAL**

Y 4.B 85/3:103-22

### President Clinton's Fiscal Year 199...

HEARING  
BEFORE THE  
COMMITTEE ON THE BUDGET  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED THIRD CONGRESS

FEBRUARY 24 1994

**Serial No. 103-22**

Printed for the use of the Committee on the Budget



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**SECOND SESSION**

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# PRESIDENT CLINTON'S FISCAL YEAR 1995 BUDGET PROPOSAL

THURSDAY, FEBRUARY 24, 1994

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON THE BUDGET,  
*Washington, DC.*

The committee met, pursuant to call, at 10:10 a.m., Room 210, Cannon House Office Building, Hon. Martin Olav Sabo, Chairman, presiding.

Members present: Representatives Sabo, Coyne, Orton, Blackwell, Browder, Woolsey, Kasich, Snowe, Herger, Smith of Texas, Cox, Franks, Smith of Michigan, Inglis, and Hoke.

Chairman SABO. The Budget Committee will come to order.

Mr. Secretary, welcome to the Budget Committee. As Secretary of Labor you are well aware that the budget we passed last year has begun to have many of the desired effects on the economy. It is sort of nice to read that for a change our economy is functioning better than the German's and the West European's and the Japanese economy, although I suspect that if they were functioning better, it would be good for us also.

It is not a plus that they are having troubles, but all the basic core strengths of our economy today are responding in substantial part to the budget and economic program that the administration and the Congress passed last year.

Job growth is coming back: 1.9 million new jobs, 1.7 in the private sector. And this year's budget builds upon that foundation, and I think takes some important steps in continuing to move our economy and our Nation in the right direction.

As Secretary of Labor, you have been an architect and will be responsible for overseeing some of the more ambitious changes proposed in the President's budget. Many of them build on what we did last year, particularly the expansion of the earned income tax credit, which I think is one of the very important programs in the budget we passed last year.

It rewards work and goes a long ways towards helping working families stay in the work force and off of assistance rolls. Under the President's proposal, many of the Federal work force programs are slated for increases and revamping. The new initiatives that you and the Secretary of Education are working on and the type of cooperation that the two of you have, is something all of us welcome. What you are about is so related, and we look forward to hearing more about that.

I think, also, the administration's emphasis on moving to one-stop assistance and job referral sites is moving clearly in the right

direction. We were involved in working with our State a few years ago as we tried to build that capacity. And clearly, there is a ways to go, but that is the right thing to do.

The budget also puts a great deal of emphasis on worker training and our programs there need revamping. It is clear that when most people are let go today, they often do not go back to that job after an interruption of a few weeks or a few months. So acquiring new skills and the role of the Federal and State government in dealing with that is incredibly important.

I have to say myself, however, that I think ultimately many of our problems lie in the ability of full-time working Americans to earn enough to support themselves and their families. And too often that is not the case today. Millions of people who are working must rely on government assistance to deal with the very basics of food and housing.

That is really at the heart of much of our debate over health care and how we deal with the Americans who are working where the economy simply didn't provide enough salary for them to exist. I have been a long advocate of a significant increase in the minimum wage. I have introduced legislation to increase it to \$6.50 an hour. And I know that is not likely on the agenda this year.

But I will continue to argue that the basic economy should be what provides the support for full-time working Americans, not the government. We also know how people become empowered, and I really believe the only way is if they are working, their wages should pay them enough for the basics of life. And I think we have a long ways to go to reach that goal in this country.

And what scares me is that all the trends over the last 15, 20 years, have been in the opposite direction. And polarization of income in this country, I think, is one of the most fundamental social problems we face, and also one of our most serious political problems. The direction we have been going, is reversing what has been the historic trend since the end of World War II. I think it is dangerous to very basic social and political fabric of this country.

But you and the President have undertaken a far-reaching, forward-thinking approach. And I look forward to hearing your testimony, as I know that the other members of the committee do, and we look forward to working with you.

So welcome to the committee, and we look forward to hearing from you, Secretary Reich.

#### **STATEMENT OF HON. ROBERT B. REICH, SECRETARY OF LABOR**

Secretary REICH. Thank you, Mr. Chairman, and members of the committee.

With your permission, I would like to submit my testimony for the record.

Chairman SABO. Your entire statement will be made a part of the record.

Secretary REICH. Let me begin with the good news.

The President will be seeking \$3.3 billion in additional authority for 1995 in the area of human resources generally. I don't mean just the Labor Department. I mean also everything from Head Start all the way through many education programs and this rep-

resents more than a 20 percent increase in human resources, or to use a cold-blooded term, human capital. I don't like that term, but it does convey the essential meaning of the resource that is in many ways the most report resource in our society. We need to invest in it and do a better job investing in it.

Let me go through, with your permission, Mr. Chairman and members of the committee, just a couple of charts to talk about the nature of the problem we face, because although jobs are coming back, almost 1.7 million, net new jobs in the private sector last year, notwithstanding corporate and defense downsizing, and all of the changes brought about by international trade, we still have problems.

Mr. Chairman, you alluded to this, and I don't know that this graph makes it quite apparent from where you are sitting, but beginning in the late 1970's, and continuing dramatically thereafter, the wage gap began growing. And you can see that this gap is directly related to education and training skill.

If you have a 4-year college degree, you have been on a mildly upward escalator since the late 1970's. Your wages adjusted for inflation, these are in 1992 dollars, have not gone up dramatically, but they have gone up. If you have a graduate degree in certain disciplines, they have gone up considerably.

On the other extreme, if you have less than a high school degree, your wages are heading and trending downward. They began trending downward in the mid-1970's. You have lost considerable ground by 1992. The wage gap has grown by at least one-third.

Everyone else is arrayed between those two poles. People with just a high school degree have lost ground, not as much ground as people who dropped out of high school. People who have some training beyond high school also have lost ground but not as much as just the high school degree.

Why are we finding this? What is this all about? Primarily it is about technology. I don't know how many of you saw this morning's Wall Street Journal, a long piece on technological displacement. We used to have a lot of bank tellers; now we have a lot of automated teller machines. This is in the service industries. We find that information technology, if you are not capable of utilizing it, may be displacing you and not just forcing you into unemployment, but forcing you into less rewarding work.

We see it in manufacturing, of course, as well. Instead of there being work in manufacturing, you have robots and computers, but there are people needed to program the robots and computers. There are people needed behind the robots and computers, it is just that they need skill and training.

Over the past few weeks, as well as some other periods of time during the last year, I have gone around the country to Chicago, California, and elsewhere, meeting with employers, unemployed workers, and workers. I hear again and again the same refrain, we need skilled workers. They don't have to have a college degree. But they have to have some skill.

This is a slightly different chart showing earnings by educational attainment. It shows here on the left, workers with below average earnings, and here on the right, workers with above average earnings. Let me describe it. It shows the highest level of education.

Not surprisingly, for the below-average workers, the highest level of education for most of them was a high school degree. Let me fix your attention to yellow and blue, because you can see a very important trend. Those with employer training or postsecondary training of some sort, even though they did not have a college degree, are also in the above-average column. Employer-training, some postsecondary training, confirms what I was saying a moment ago: your chances of getting a better job are far better with training.

Unemployment also is tracking education and skills. In the last recession we heard a lot from white collar unemployed workers and a lot of complaints from educated workers, but in point in fact only 2.9 percent of college graduates were unemployed last year in this country. But look at the people with less than a high school diploma: for persons 25 years and over, almost 11 percent unemployment last year. People between high school graduates with no college or less than a B.A. and those with some training are arrayed in between, precisely the same pattern as wages and benefits.

Let me focus your attention on this trend as well, because it is disturbing. What we see here is the length of unemployment spells. If you lose your job, you are more apt to be unemployed for a longer period of time now than at any time in the postwar era. We have record numbers of people who are unemployed for longer than 6 months. Why is that? Because it is harder to get the next job. Mr. Chairman, as you said, the old job is not waiting for you.

This chart tells much of the story showing job losers not expecting to be recalled. The average for the four prior recessions was about 44 percent on layoff of those who are unemployed expected appropriately to be recalled. This past recession, only 14 percent had any reason to expect to be recalled. The old job is not there any longer, a dramatic change between the four prior recessions and what we have just gone through.

Corporations are downsizing. The defense industry is downsizing, but all of corporate America is restructuring. That term "layoff," used to imply that you get the old job back again, you would be on the payroll again, is now a misnomer. People are not generally speaking of layoff. They have lost their job permanently.

And finally, let me point to unemployment in metropolitan poverty areas, a third dimension of today's unemployment problem.

I want to stress to you the good news. Jobs are coming back, but these three problems remain: number one, the widening gap, if you are not skilled you are doing worse and worse; number two, the difficulty of finding the next job; and number three, high levels of unemployment, substantially higher. I don't have a comparison chart here but I can assure you that there is a trend in the wrong direction here.

Look at black teenagers. For 1993, the unemployment rate, to the extent that it was measurable, and this is a very conservative estimate, in metropolitan poverty areas was 43.8 percent. These are young people who are not in school. These are young people who have nothing to do. You talk about crime, there is a direct relationship between crime and joblessness. Let there be no mistake about that.

Look at Hispanic teens: 30.3 percent. Almost a third of them having nothing to do, with no legitimate job in high poverty areas.

White teenagers, 25.7 percent. Again, let me stress, this is a major problem. The Nation cannot turn its back on it. I could go on with other charts, but I just want to stress to you that although there is good news, there is also a great challenge ahead.

The question is, what works? What can we do that really affects these three problems? And what I would like to do with the remaining portion of my presentation is to describe to you briefly what doesn't work, and also what does work. I think we have to be very realistic about what doesn't work.

And one thing that my colleagues and I are trying to do at the Department of Labor, and we already have made major strides in this direction, is to take money out of things that don't work, and put the public's money into things that do work, into investments that in fact pay off.

An example of something that does not work is short-term training for disadvantaged teenagers. Much as I have tried, I cannot justify the current very short-term training for disadvantaged teenagers based upon the data that I am receiving. We have done evaluation after evaluation over the past year and I have looked at these programs. My conclusion is that very short-term training, and I am talking about the range of 3 to 4 months for disadvantaged teenagers with nothing else, is not work relative to disadvantaged teenagers. Does that mean we give up on disadvantaged teenagers? No, not at all. It means that we try different routes.

You will see in the budget that the President is presenting to Congress that we are reducing JTPA Title II-C by \$60 million, but we are increasing the recommended funding for other programs that seem to work for disadvantaged teenagers, such as Job Corps. Job Corps celebrates its 30th anniversary this year. An abundance of empirical evidence shows that, and there is very little controversy on this one, relative to control groups, young people who have gone through Job Corps have a substantially lower rate of crime and a higher rate of attending college. They also have a lower dropout rate and more of them finish their GED's. They have a better rate of getting jobs and staying off of welfare during their lifetimes.

The investment of every dollar in Job Corps pays the public substantially in terms of the benefits that it gets out of it. I can assure you, it is an expensive program, about \$22,000 per participant, but it is much cheaper than \$30,000 a year in a jail cell, and what you get out is a productive citizen in the end.

Now, there are other programs for the disadvantaged, as I have traveled around the country, that do work if they are connected to real jobs at the end. A program that I was very enthusiastic about, is called the CET program, started in San Jose, California, taking groups of young people and working with employers to fashion training for jobs that are already there. The employers will guarantee that the job is at the end of the training, and the employer will guarantee some on-the-job training as well. Now that program works. It has 90 percent placement rates. I have talked to gang leaders in Los Angeles, gang members in Chicago, and disadvantaged kids all over the country in programs like that where the

training is connected to the job, and we get a public payoff from that. We are shifting funds there.

With regard to disadvantaged adults, what seems to work well is programs geared to on-the-job training. We are getting a good payoff. But the Targeted Jobs Tax Credit, I am unhappy to announce, is not working in its present form. The studies by the Inspector General at the Labor Department, and studies by the GAO, studies done during the 1980's, show that a large proportion of the employers that benefit from the Targeted Jobs Tax Credit would have hired the individuals without the program.

The Targeted Jobs Tax Credit is popular among employers, but it ends up being a windfall because they would have hired those individuals in 70 to 90 percent of the cases. The Targeted Jobs Tax Credit runs out in September, and based on the evidence that we have, it is difficult to recommend that it be extended in its present form. We are going to look at it and see if we can come up with something that is far better. If we can't, then we are going to recommend that it be not extended.

Let's take the problem that is now displayed there, the problem of people who are losing their jobs who are not going to get the old job back again. Many of these people are disadvantaged people. And I don't want to draw a false distinction between the disadvantaged and the people who lose jobs because many of these people we have in the country are a large number of working poor.

Eighteen percent of full-time workers in the country didn't earn enough to keep a family of four out of poverty. A disproportionate number of people who lose their jobs permanently are disadvantaged. Again, I don't want to draw a false distinction.

But what doesn't work? What does not work are unemployment systems in which we simply pay for people to wait until their old job comes back again. Last year the United States Federal Government paid out \$14 billion in extended emergency unemployment benefits over and above the \$22 billion provided in the State-Federal regular unemployment insurance program. That is \$36 billion in 1 year not directed at helping people get the next job, not directed at retraining them, but simply directed in almost all cases to helping people tide them over until hopefully they would get their old job back. That is \$36 billion from taxpayers, businesses, and employees. In my judgment, that is not a wise use of money.

The President is going to come back and recommend a different kind of program. A reemployment program in which you keep the same basic Federal-State unemployment insurance program, but you add to it reemployment services, identifying people who are likely to lose their jobs very early when they come for unemployment insurance, and getting them reemployment services like job search assistance, which is very important.

All of the data shows that if you can get someone assistance in finding the next job, you have a much better chance of getting a job sooner, and this includes job counseling and, for those who need it, job training. We have experimental data here as well. One example, New Jersey, tried exactly what we are proposing on a smaller scale. It identified people very early on after they had applied for unemployment insurance and identified the ones who are not likely to get their old job back again because their industry or occu-

pational group was shrinking. It got them reemployment services and good information about where there were jobs and what training was appropriate and gave them training if necessary.

The net result was that the duration of unemployment actually shrank by an average of 1 week. That may not sound like much, but I assure you that 1 week adds up for everybody in that program. This was not a small pilot project; this was 2,000 or 3,000 people and a control group of 2,000 to 3,000 people. You add up all of those 1 weeks nationally and you get tremendous savings, and you also get productive citizens back to work sooner, not to mention the tax receipts from those productive citizens. We all have an interest in getting people back to work sooner.

Corporations, large corporations are going to continue to downsize. There is nothing we can or should do about that. That is part of the restructuring of America. I happen to believe it may be going a little bit overboard, but be that as it may, it will continue. The defense sector has got to downsize. We are at the end of the Cold War. Many people have to get new jobs. International trade is good for us, but it does mean job change for many people. And the easier we make those job changes, the less resistance we will have to changing jobs and the less pressures to protect old industries and old jobs.

Finally, technology alone, as I said initially, is changing jobs. I might mention also, not incidentally, health care reform. If we do get control over health care cost increases, it is going to mean a slowdown, if not a reversal, in the paper health care professions. And the "paper health care jobs," what do I mean? I mean the data processors, the insurance claims people who are reviewing insurance forms, people who are simply doing the filing and the paperwork and involved in red tape. Those people do not deliver health services.

There is likely to be a substantial increase in home health care, and the need for home health care providers delivering primary services. But if we get control over health care costs, there will be a shift undoubtedly in the needs of individuals for the kind of jobs in health care.

Let me move on to one final point, Mr. Chairman, and members of the committee, and that is enforcement. There are over 9 million workplaces in America. I have met with workers all over this country who tell me again and again they don't feel protected. They tell me, and the data show it, that there are too many instances of injuries and illnesses. I didn't bring the graph, but we have done a pretty good job of stabilizing the fatality rates at the job, but with regard to illnesses and injuries, it continues to climb.

Workers' compensation bills continue to climb very rapidly, and on other issues such as wages, hours, and working conditions, we have to do a better job in enforcement. With 9 million workplaces, we also have to target better, and we need more enforcement resources. The President is going to be asking for more enforcement resources to do a more responsible job.

On that, let me end, but let me say that the job of getting better jobs, the responsibility of ensuring healthier and safer, less discriminatory workplaces which subscribe to the minimum labor law, is a responsibility widely shared. It is not just a Federal respon-

sibility; it is also a State responsibility, and it is also the responsibility of individuals to better themselves. People have got to understand that in this day and age, they cannot simply get a good job without the proper training.

Employers have to understand that it is important to train their employees and they are currently spending about \$40 billion a year training their employees. Most of that money is going to training college graduates who comprise only about 25 percent of the work force.

Go back to my graph on the widening gap between the college and noncollege. It is a challenge for all of us. And it is a challenge that we are prepared to take on wholeheartedly at the Labor Department with our school-to-work opportunities program, an initiative which has gone through the House; with our Goals 2000 and particularly the standards setting initiative, not just for school, but also for vocational standards; and finally, with the Reemployment Program, an initiative which we will be sending to Congress within the next month.

Thank you.

[The prepared statement of Hon. Robert B. Reich follows:]

PREPARED STATEMENT OF HON. ROBERT B. REICH, SECRETARY OF LABOR

Mr. Chairman, Congressman Kasich, Members of the Committee: I am pleased to have the opportunity today to present President Clinton's budget for Fiscal Year 1995 and to highlight the role of Department of Labor initiatives in the Administration's economic plan.

A year ago, our nation's economic picture was cloudy, with escalating budget deficits, a lingering recession, and a stagnating economy.

Today, the picture is significantly brighter. In the first year of the Clinton Administration, nearly two million jobs were created—over 1.7 million in the private sector. In the previous *four years combined*, only one million new private sector jobs were created. Accompanying this job growth has been a significant decline in unemployment. And there is a clear downward trend in budget deficits.

But enormous social and economic challenges remain. I want to begin by setting the specific—and difficult—choices this budget represents in the larger context.

THE PROBLEM

Even as overall unemployment is down, the problem of longterm unemployment remains acute. Despite the recovery, the average length of a jobless spell in 1993 hit its third highest annual level since the end of World War II. Only twenty-five percent of those who lost their jobs in 1993 expected to be called back to their old jobs. For the other seventy-five percent, the old job was gone for good—representing the highest percentage of permanent job loss ever registered.

Today, many Americans cannot get work, keep work, or advance in a career. Increasingly, workers without the right skills find their options shrinking, as the old pool of jobs for noncollege-educated workers dries up. Fewer and fewer Americans can count on holding a single job throughout their careers and the unskilled face worsening odds for sustainable prosperity.

The increasing challenges wrought by global competition, defense downsizing, technological advances, and corporate restructuring all add fuel to anxieties about job security. It is also true that these anxieties do not affect all of us equally. For instance, if you're female, with a high school education, not only do you make less than women with college educations, you make less than males with high school educations. If you live in a city and are black or Hispanic, you are significantly more likely to be unemployed than your white counterparts. Change strikes hardest at those who are already vulnerable.

THE CHALLENGE TO GOVERNMENT

The challenge this Administration and this Congress face is to attack our most pressing problems within the context of a rigorous budget—and to fund what works. The proposed 1995 budget sticks to the spending caps, which freeze discretionary

spending at the 1993 level, and targets over a hundred programs for outright extinction. If we are to regain control of our economic destiny, we must make these difficult choices. But the budget also proposes *increases* in selected areas. There is no inconsistency in this. For the sake of a better future, we accept austerity. And for the sake of a better future, we make investments.

Foremost among these are investments in people—our nation's most valuable asset. The budget includes substantial investments for Head Start, Title I for disadvantaged elementary students, Goals 2000 for elementary and secondary school reform, School-to-Work Opportunities programs for non-college bound high school students, national service to allow more young people to serve their communities and earn money toward college, and a significant increase for the WIC nutrition program for pregnant women, infants and young children. The budget proposal also includes workforce investment programs at the Department of Labor, primarily the proposed new reemployment system, one-stop career centers, and an expansion of the Job Corps program. In total, the Department's share of this \$3.3 billion increase in human resources investment is \$1.0 billion—from \$ 5.5 billion to \$6.5 billion.

Investing wisely means investing in what works—and it means the courage to look candidly at what doesn't work and to invest elsewhere. We need to keep asking these difficult questions. And as the answers come, we need to have the discipline to act on them.

Little is more destructive to public trust than funding programs that claim to fill an urgent need—but fail. Some proponents will bask in the illusion that people are being helped when they are in fact being left behind—and some taxpayers will lose faith that their government can work. The budget we are proposing makes a more meaningful commitment to programs that work—like Job Corps for severely disadvantaged youth, Head Start, and WIC—and makes cuts in some 300 specific programs that don't pull their own weight.

As our nation moves into an increasingly global economy, it is more critical than ever that we maintain our commitment to building a national workforce strategy that includes all our citizens. More than ever, what you earn depends on what you learn. If you have the skills that come with a college degree or other training beyond high school, you'll probably find a good job and earn a good wage. But if you don't have the skills, you're more likely to be without a job or stuck in a job that goes nowhere.

#### FINDING—AND FUNDING—WHAT WORKS

##### New Jobs

As the President made clear in this year's State of the Union address: "The only way to get a real job with a growing income is to have real skills and the ability to learn new ones. We must streamline today's patchwork of training programs and make them a source of new skills for people who lose their jobs. Reemployment, not unemployment, will be the centerpiece of our economic renewal."

We need to build a *re-employment* system because our current *unemployment* system no longer delivers what American workers need. The primary governmental response to job loss—the Federal-state unemployment insurance system (UI)—was designed in a different time and for a fundamentally different economy. When UI was started fifty years ago, the idea was to provide income support during *temporary layoffs*. Both government and workers shared the expectation that laid-off workers would return to the same jobs once the economy picked up again.

Today, UI still helps millions of workers through short-term income support. But for many unemployed Americans, the picture has changed: they face *structural displacement*, not simply *cyclical downturns* in the economy. The current system simply isn't set up to help workers build new skills and find new jobs.

The symptoms of Government's current failure to deliver are clear—especially to the citizens who need to make workforce transitions. People looking for help confront a confusing, overlapping, and duplicative tangle of programs, services, and rules. Students, workers, and the unemployed have a tough time getting the information they so desperately need: what benefits and services are available to them? Where can they get high quality training? What do they need to know to find and hold good jobs and build sustainable careers?

The underlying problem is the lack of a coherent employment and training system. Instead, we have a large number of disconnected, category-based programs—each with distinct eligibility requirements, operating cycles, and program standards. Reams of Federal rules, regulations, eligibility standards, governance structures and administrative procedures add operating costs and erect artificial barriers to program coordination—despite the pleas of State and local administrators for relief. We

need to build a true system of lifelong learning instead of the current hodgepodge of programs.

That's why the Department of Labor has been scouring the country for evidence of what works for getting workers into new and better jobs. The Department recently hosted a conference on "Building a Reemployment System: What Is Working Across America"—that brought managers and customers of some of these pathfinder programs together with labor and community leaders, members of Congress and their staffs, and the President. The conference not only highlighted programs that work but also focused on identifying their critical common elements. Soon, the Administration will propose the Reemployment Act of 1994, which is founded on this sturdy evidence about what works.

### *First Jobs*

Two weeks ago, the Senate, following earlier action by the House, helped lay the foundation for the Administration's high-skill, high-wage jobs campaign, by passing the School-to-Work Opportunities Act and the Goals 2000: Educate America Act. These two bills have enjoyed widespread, bipartisan support throughout the country and will complement the proposed Reemployment Act by bringing America's young people a giant step closer to economic security.

In this increasingly global economy nearly everyone—business leaders, along with educators, community organizations, and State and local governments—have recognized that, while our major international competitors are refining and improving their school-to-work transition systems, the United States has yet to develop one. In practical terms, this means that unlike their peers in Japan or Germany, young Americans entering the workforce after high school make their way into their first jobs with little guidance, direction, or support.

Like the proposed Reemployment Act, the School-to-Work bill grew out of what works. We know that many people learn better when they have the opportunity to learn in context. People learn better when they see the connection between what they are learning and why they need to know it. People learn better when they can work closely with an expert, ask questions, learn by applying academic lessons in a real-world setting, by the example of others, and by practice. In easing the transition from school to work for the three-fourths of American youth who enter the workforce without four-year college degrees, our proposal aims to develop a high-quality system in all States, building on effective innovations already underway.

The Act establishes a framework for a high-quality, nationwide system to serve significant numbers of youth, including those who plan on continuing their education at a college or university. Expanding and enriching the existing programs—the building blocks for the system—will expand opportunities for students to take the first step on a high-wage, high skill career path. This framework fosters the co-operation of key partners who are essential to success: employers, labor, educators, civil rights and community-based organizations, and State and local government.

The school-to-work proposal is closely linked to the Goals 2000 Act, which promotes the development and voluntary adoption of national academic and skill standards. School-to-Work Opportunities programs will prepare students, both through school-based and work-based learning, to meet the challenging content and performance standards developed under the Goals 2000 legislation. Ultimately, the establishment of national skill standards in broad occupational areas will guide the development of what a student learns in a School-to-Work Opportunities program and what a student needs to know to earn a skills certificate. The 1995 request includes \$300 million for School-to-Work, divided equally between the Departments of Labor and Education.

The Administration's budget proposal acknowledges our special accountability for building the skills of the disadvantaged, adults as well as youth. Workforce investments—not welfare checks—must be the weapons of choice in the struggle against poverty. The 1995 budget builds in a multipronged strategy. Under the proposed Reemployment Act, all workers who are seeking jobs—including the most vulnerable among displaced workers—will have access to basic employment services. In addition, the budget calls for significant investments in youth, so that they can get the job and work experience they need to compete in the new global economy. The budget also includes large categories of skill-building investments targeted exclusively on the disadvantaged. In this critical area we have been especially careful to examine all the evidence and concentrate our resources where they make a difference. For example, a major study recently confirmed mounting signals that conventional short-term training programs for disadvantaged youth fail to have any positive impact on their job prospects or earnings. So our proposed budget pares back youth training grants by 9 percent (or \$60 million) while we develop new, more effective approaches. At the same time, the proposed budget for 1995 builds in a major in-

crease of \$116 million for a proven winner for disadvantaged youth—Job Corps. There is no doubt that Job Corps is expensive. There's also no doubt that it works, and it's worth what it costs. An expansion plan that began last year calls for a 50% increase in capacity over the next decade, and will fund six new centers this year, in addition to the eight new centers started last year. Overall, there are enough proven programs for building the skills of the disadvantaged to justify a major budget expansion, even in these difficult budgetary times. The total requested increase for programs serving the disadvantaged is \$479 million—a 13 percent increase over last year's budget.

#### *Better Jobs*

In addition to helping generate and facilitate first jobs and new jobs for Americans, the Administration is also committed to ensuring *better* jobs for Americans. Building a seamless system of lifetime learning is an important part of the strategy. So, too are productive workplaces, state-of-the-art technology, and a modern infrastructure.

Another essential component of the strategy for better jobs is blocking the "low road" to competitive advantage—a road paved with substandard wages, discrimination, health and safety violations, to name just a few—through energetic and strategically targeted enforcement of key labor and employment laws. The Department has developed a new Enforcement Initiative to address its changing law enforcement responsibilities, which cover approximately 10 million workplaces and over 100 million people. The budget for the Enforcement Initiative calls for 355 FTE and \$66.7 million. With these additional resources—principally more investigators and compliance staff—the Department will be able to make coordinated, high-profile interventions that focus on repeated and egregious violations of the laws.

Our enforcement initiative will not only provide more resources, but will also capitalize on "reinventing" enforcement strategy to increase effectiveness, coherence, and fairness. These reinvention efforts, which implement recommendations of the Vice President's National Performance Review, include expanding the use of modern information technology by putting more computers into the hands of front-line workers—and economizing on scarce litigation resources by expanding the use of Alternative Dispute Resolution.

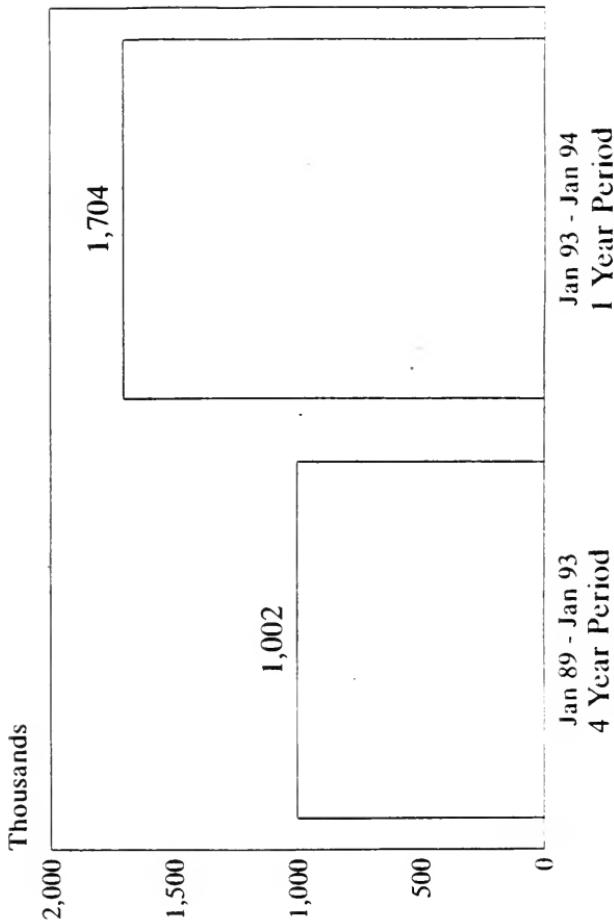
The 1995 budget signals a major shift in policy, from simply seeking to ease the pain of unemployment to actively promoting new and better jobs for all Americans. It reflects the Administration's commitment to restrain discretionary spending, while recognizing the paramount importance of investing in young people and all our workers, in ways that boost their productivity and prepare them to adjust to economic change and compete successfully in global markets. The economic vitality of all Americans depends on our continuing to invest in building a highly skilled workforce.

Ultimately, the responsibility for getting America to work falls on every shoulder. Individual citizens must take responsibility for a lifetime of learning and flexibility. Businesses must recognize that workers are their most important asset—and must keep investing in their workers' skills. And government must deploy its limited resources with clear-headed analysis and hard-headed reform—expanding what works, abolishing what doesn't—and seizing every opportunity to improve.

This concludes my prepared remarks. I look forward to working with all of you, and I will be glad to answer any questions.

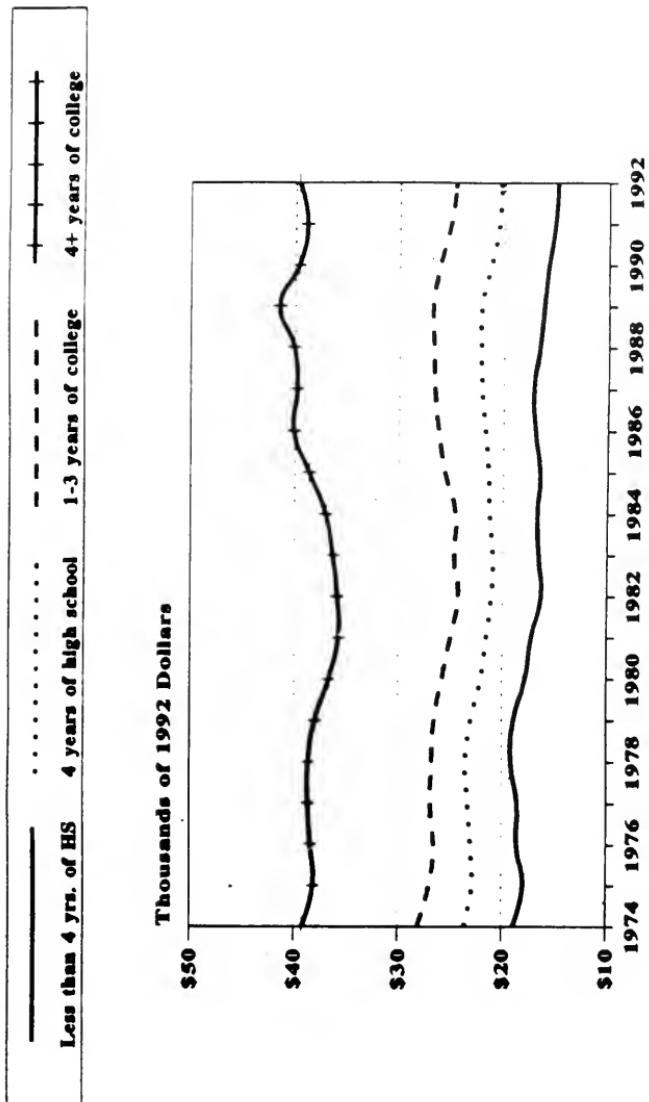
# Jobs Are Coming Back

Total Private Nonfarm Payroll Jobs



Source: Bureau of Labor Statistics Data  
Prepared OASP, 2/15/94

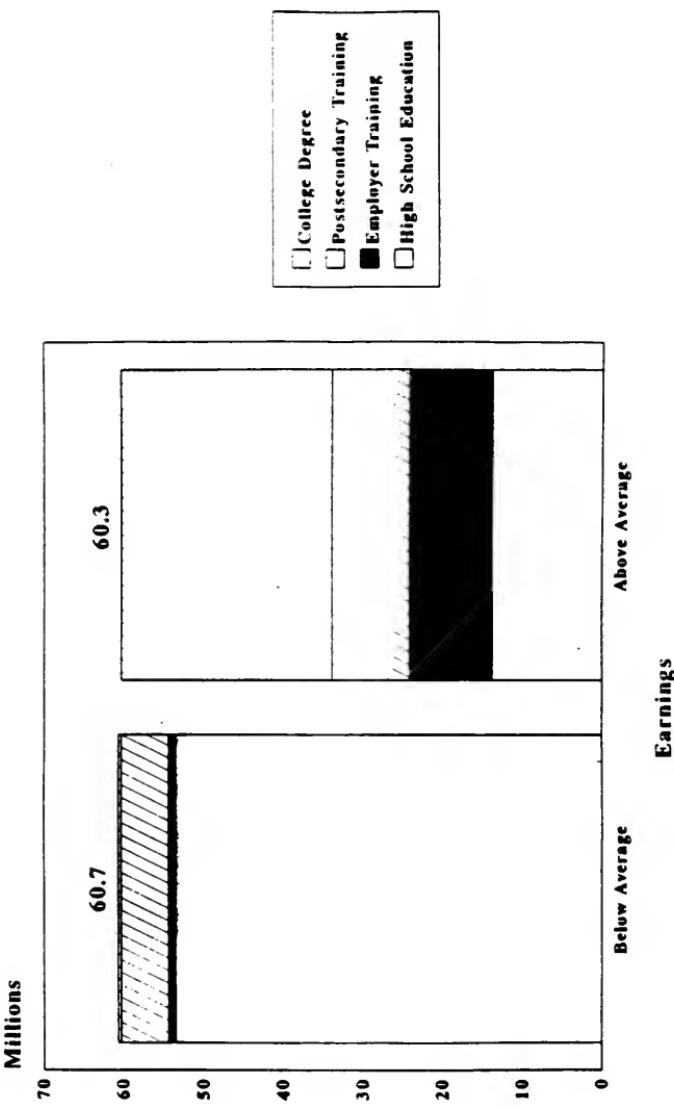
# Earnings Gap Widening Annual Mean Income by Years of School



Source: Bureau of Census, Current Population Survey, as tabulated by DOL\OASP

Note: Workers 25 to 64 years with earnings. Data on educational attainment for 1991 and 1992 are not directly comparable to prior years due to changes in the questionnaires

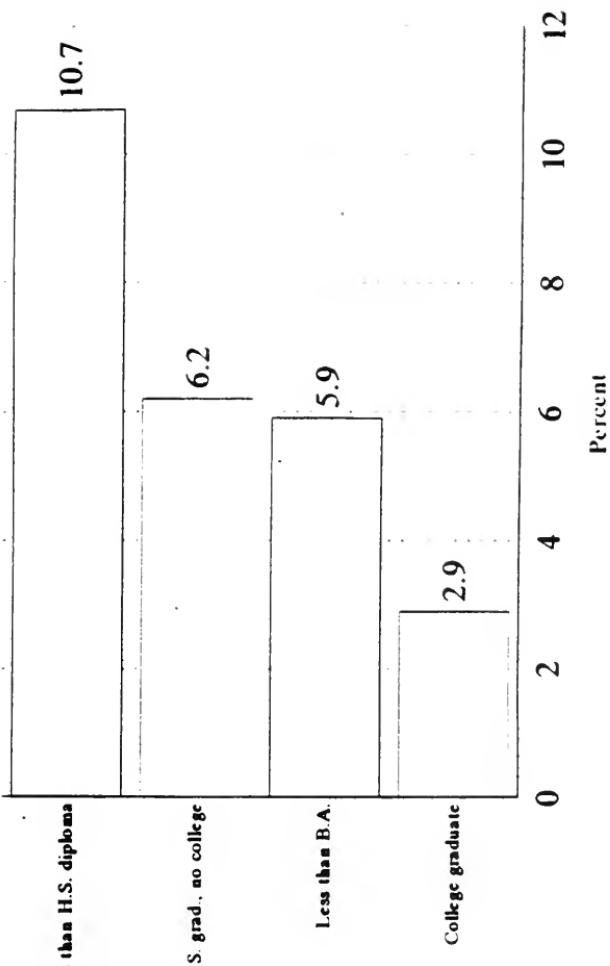
# Earnings by Educational Attainment, 1992



Note: Employment for each occupation is categorized by median earnings and usual education and training. Each earnings category accounts for approximately one-half of the total employment in 1992. This occurs because workers in each occupation were allocated to only one earnings category.

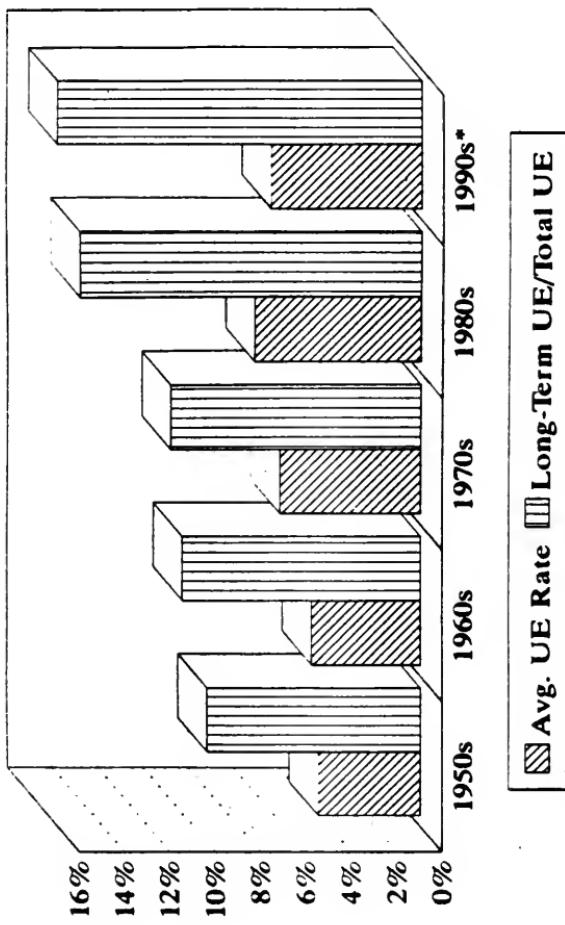
Unemployment Rates by Educational Attainment  
 1993 Annual Averages  
 (Persons 25 Years and Over)

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Source: Bureau of Labor Statistics, Current Population Survey  
 Prepared: OASPI 194/

## Length of Unemployment Spells Are Increasing



\* Through 1993

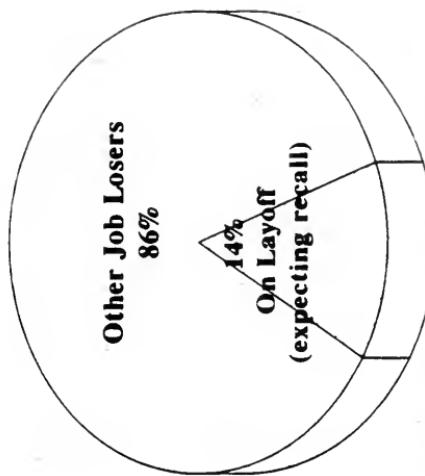
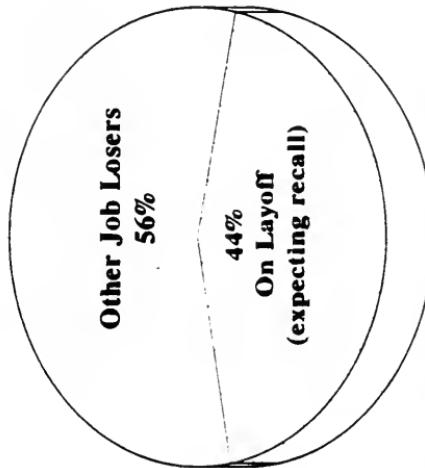
**The long term unemployed have become a greater portion of the total unemployed.**

# Job Losers Not Expecting To Be Recalled

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Average for Four Prior Recessions

Recent Labor Market Contraction  
July 1990-June 1992



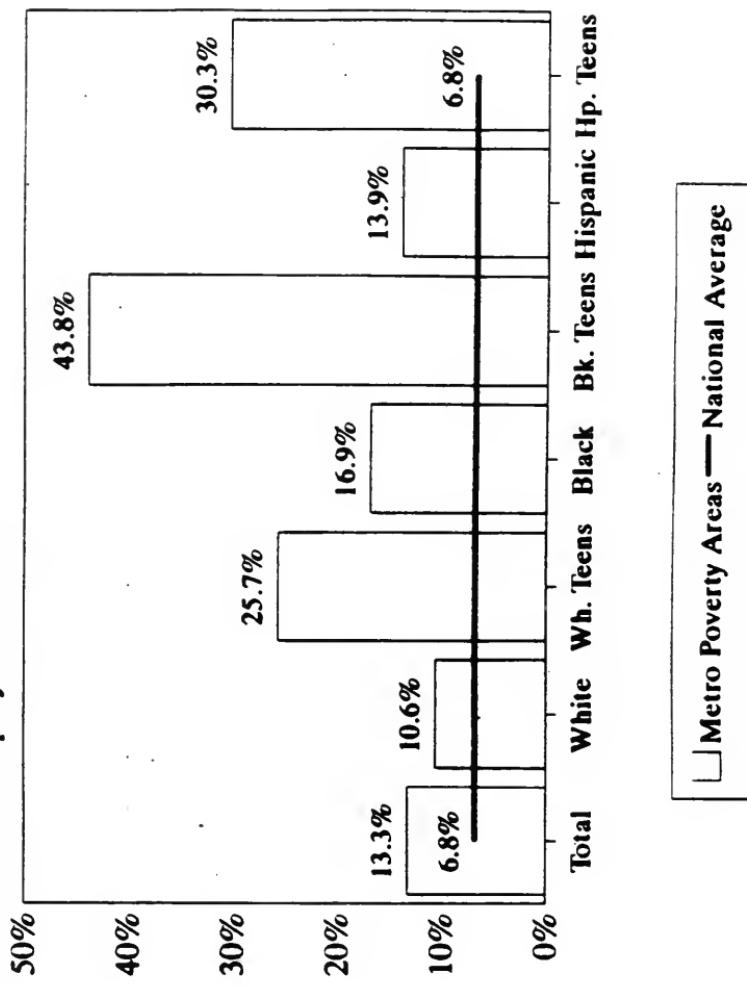
**Note:** The National Bureau of Economic Research has determined that the recent recession began in July 1990 and ended in March 1991. However, the July 1990-June 1992 period is used for the comparison with earlier recessions because the number of job losers did not peak until June 1992, well past the official endpoint of the recession. In prior recessions the peak in the number of job losers was more coincident with the official endpoints.

Source: DOL\Bureau of Labor Statistics, Current Population Survey.

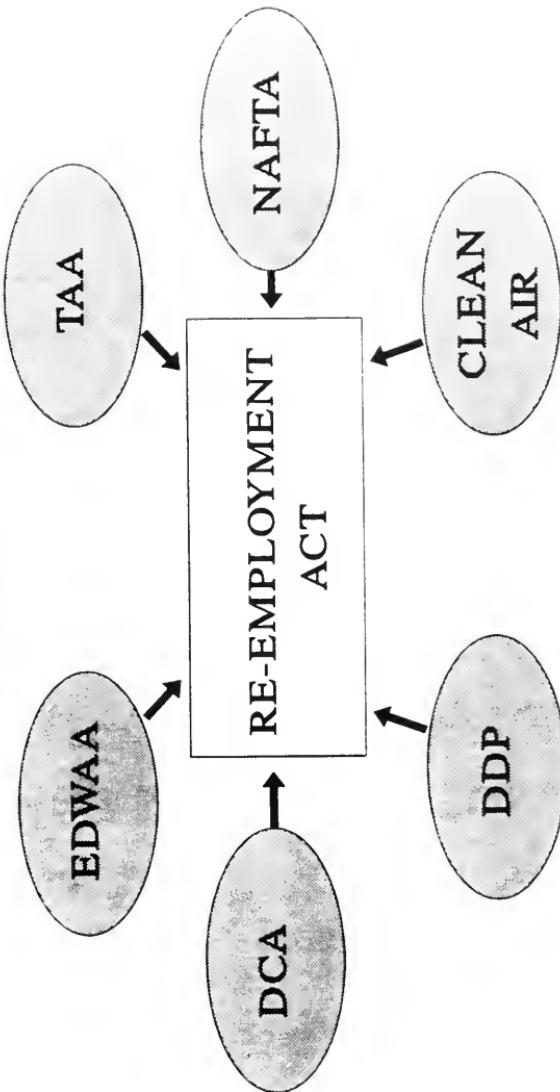
# Unemployment Plagues Metro Poverty Areas

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1993 Unemployment Rate



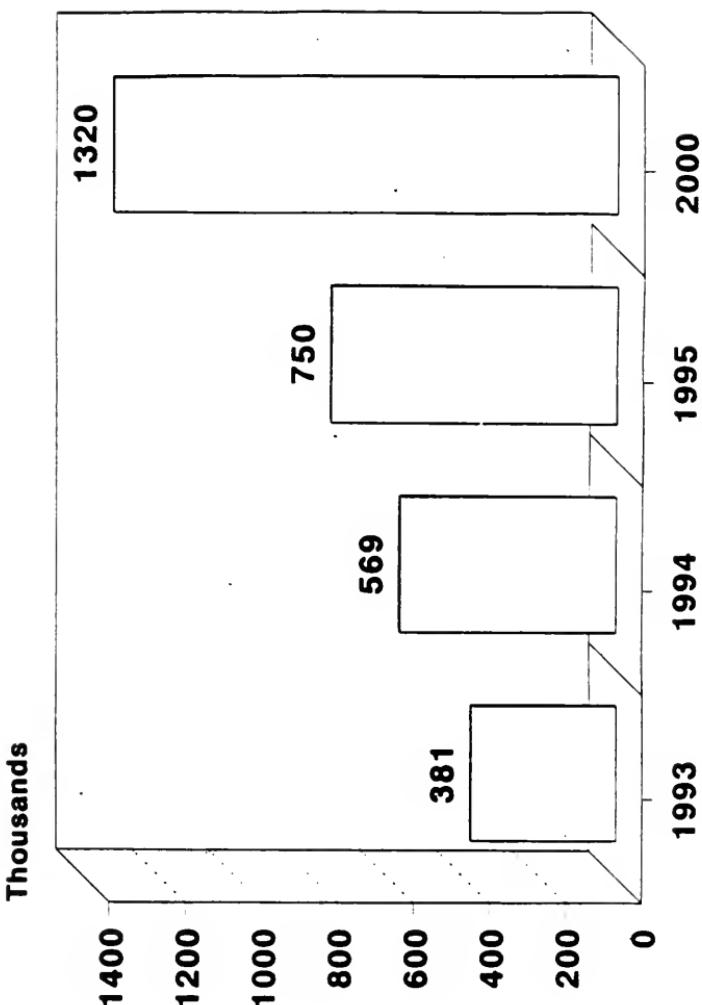
# Re-employment Act Consolidates Six Programs for Dislocated Workers



Programs: EDWAA - Economic Dislocation & Worker Assistance; TAA - Trade Adjustment Assistance; NAFTA - NAFTA Bridge Program; CLEAN AIR - Clean Air Employment Transition; DDP - Defense Diversification; DCA - Defense Conversion Adjustment

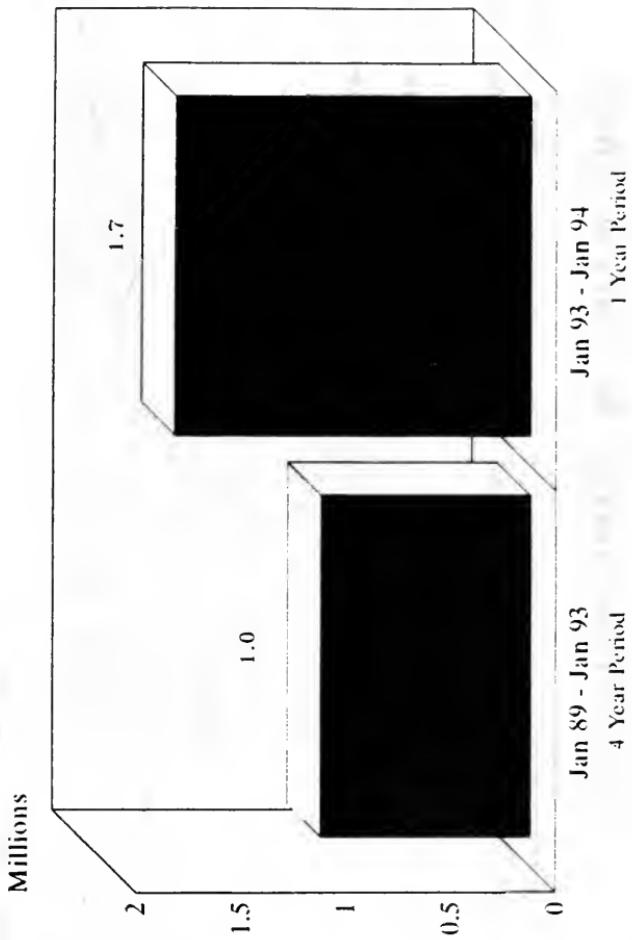
RE-EMPLOYMENT ACT PARTICIPATION  
FY 1993 - FY 2000

20



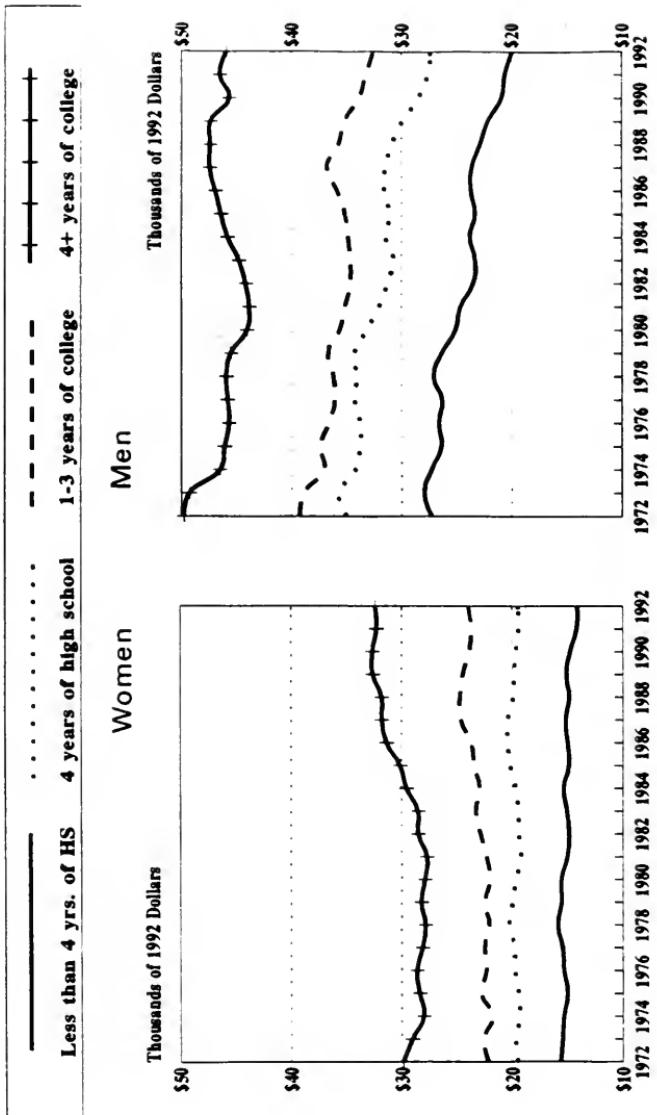
## 1.7 Million Jobs Created During 1993 Growth in Private Nonfarm Jobs

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Source: Bureau of Labor Statistics  
Prepared by: OASPI, 3/7/94

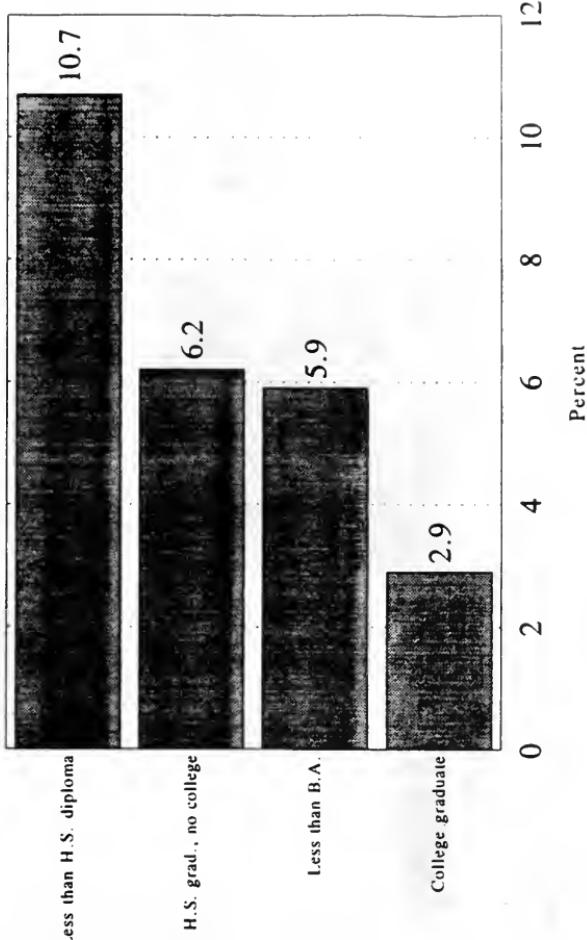
## Earnings Gap Widening Annual Median Income by Years of School



Source: Bureau of Census, Current Population Survey.

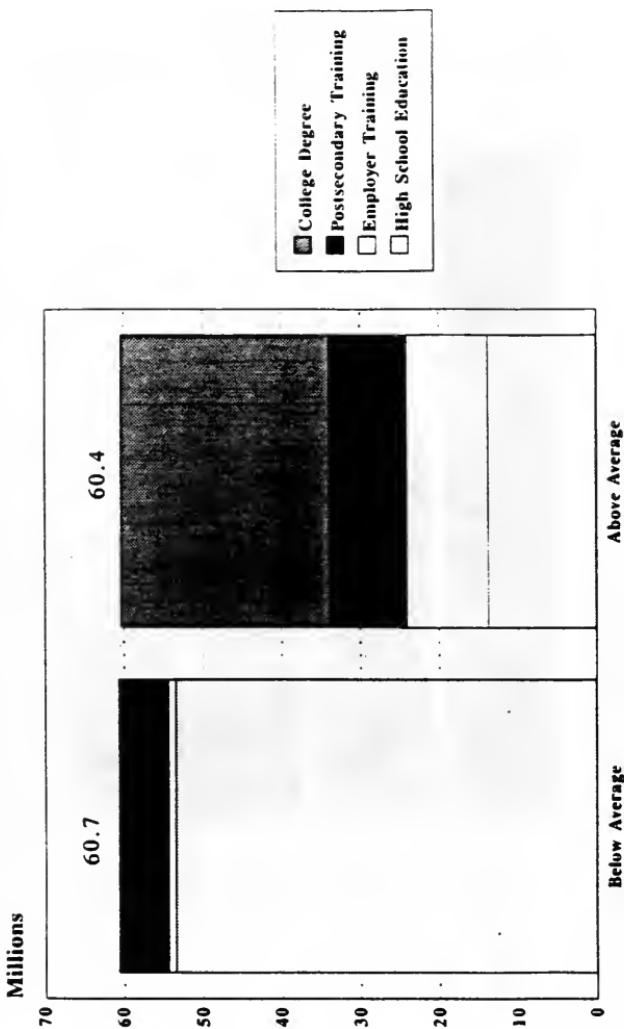
Note: Workers 25 years and older, working year-round, full time. Data on educational attainment for 1991 and 1992 are not directly comparable to prior years.

Unemployment Rates by Educational Attainment  
 1993 Annual Averages  
 (Persons 25 Years and Over)



Source: Bureau of Labor Statistics, Current Population Survey  
 Prepared: OASp/2, 16 94

## Occupational Employment by Earnings and Educational Attainment, 1992

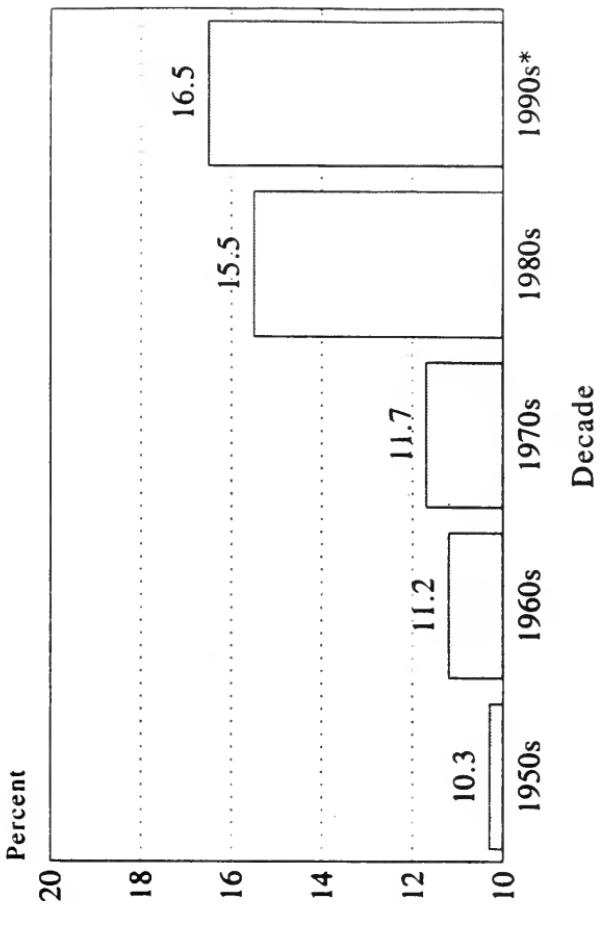


### Earnings

Note: Employment for each occupation is categorized by median earnings and usual education and training. Each earnings category accounts for approximately one-half of the total employment in 1992. This occurs because workers in each occupation were allocated to only one earnings category.

Source: Bureau of Labor Statistics  
Prepared By: OA&P 3/4/94

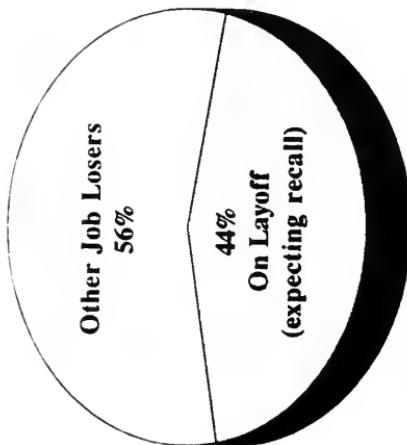
## Long Term Unemployment is Increasing Persons Unemployed 6 Months or More as a Percent of Total Unemployment\*



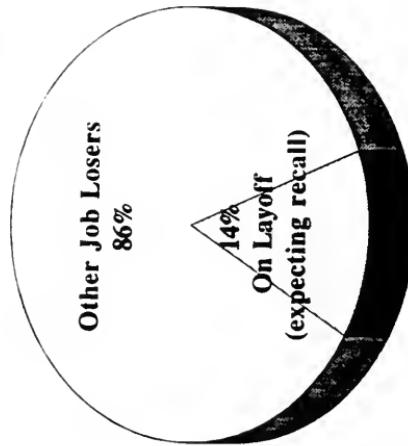
\*(through 1993)

Source: BLS  
Prepared by: OASP 3/7/94

# Unemployed Not Expecting To Get Jobs Back



Average for Four Prior Recessions



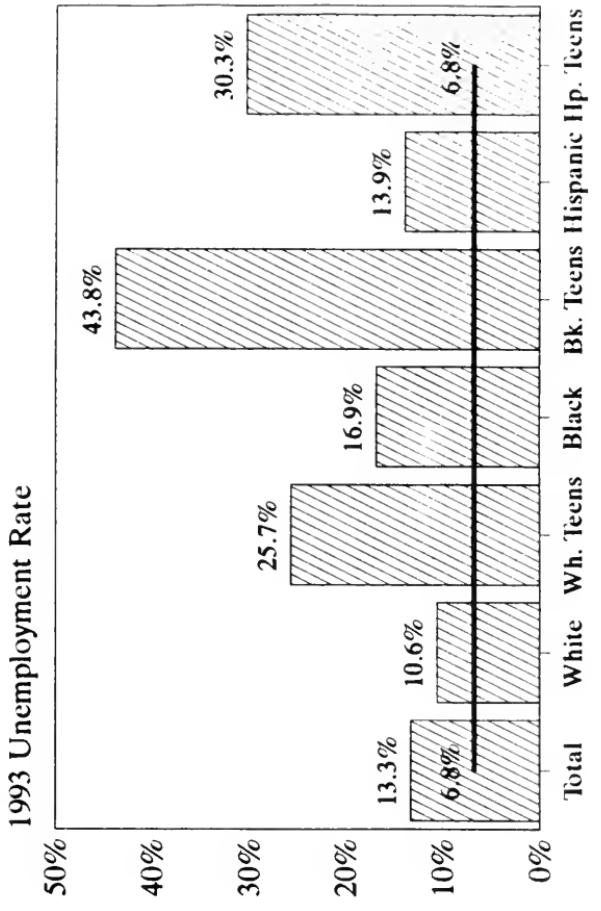
Recent Labor Market Contraction  
July 1990-June 1992

Note: The National Bureau of Economic Research has determined that the recent recession began in July 1990 and ended in March 1991. However, the July 1990-June 1992 period is used for the comparison with earlier recessions because the number of job losers did not peak until June 1992, well past the official endpoint of the recession. In prior recessions the peak in the number of job coincident with the official endpoints.

Source: DOL\Bureau of Labor Statistics, Current Population Survey.

# Unemployment Plagues Metro Poverty Areas

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Metro Poverty Areas — National Average

# MAJOR INCREASES IN FY 1995 BUDGET

(Budget Authority in Millions)

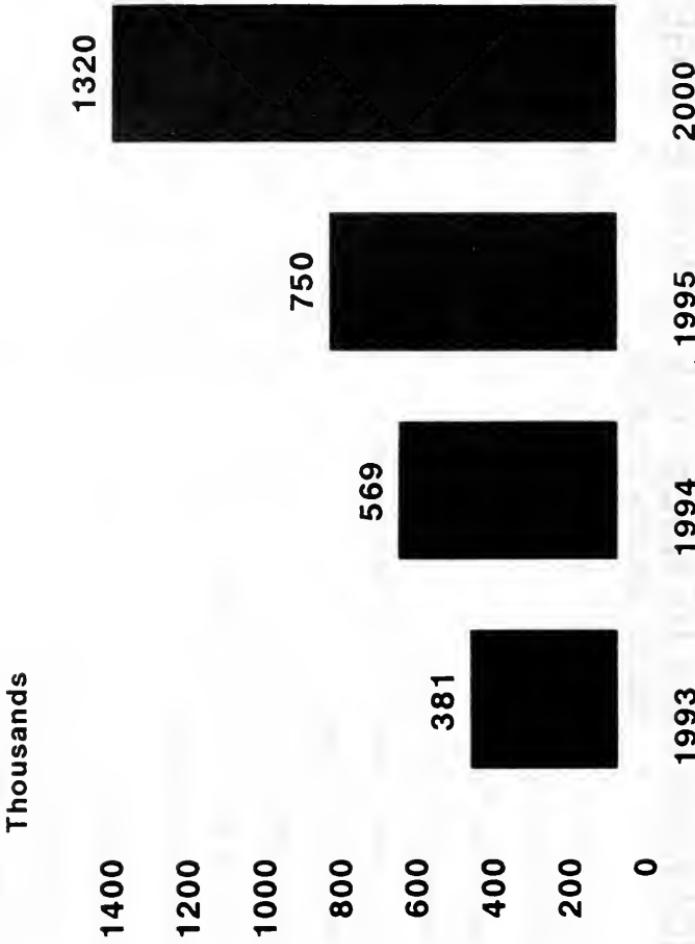
	FY 93	FY 94	FY 95	FY 95 Increases: Amount	FY 95 Increases: Percent
Dislocated Worker Assistance	\$651	\$1,118	\$1,465	347	31.0%
Job Corps	966	1,040	1,157	117	11.3%
Summer Youth	1,025	888	1,056	168	18.9%
School-To-Work	---	50	150	100	200.0%
One-Stop Career Shopping	---	50	250	200	400.0%
Other Employment and Training	2,368	2,328	2,402	74	3.2%
<b>TOTAL</b>	<b>\$5,010</b>	<b>\$5,474</b>	<b>\$6,480</b>	<b>\$1,006</b>	<b>18.4%</b>
<b>TOTAL, DOL Discretionary Budget</b>	<b>\$9,954</b>	<b>\$10,596</b>	<b>\$11,708</b>	<b>\$1,112</b>	<b>10.5%</b>
<b>FTE, DOL</b>	<b>19,582</b>	<b>19,448</b>	<b>19,460</b>	<b>12</b>	<b>0.1%</b>

# ENFORCEMENT INCREASES IN FY 1995 BUDGET

(Budget Authority in Millions)

	FTE	AMOUNT
<b>NEW RESPONSIBILITIES....</b>		
Job Safety and Health	132	\$18.0
Targeted Enforcement (includes Family and Medical Leave)	40	1.2
FECA PRM Project	105	8.1
Mine Safety and Health	43	2.8
Pension and Welfare Benefits	25	5.1
Litigation Support	10	0.8
<b>REINVENTION....</b>		
Information Processing	--	26.3
Alternative Approaches	--	3.3
Alternative Dispute Resolution	--	1.0
<b>TOTAL</b>	<b>355</b>	<b>\$66.7</b>

RE-EMPLOYMENT ACT PARTICIPATION  
FY 1993 - FY 2000



Mr. COYNE [presiding]. Thank you, Mr. Secretary.

We welcome your comprehensive and informative testimony. The community I represent is interested in providing a Summer Youth Employment and Training Program that is based on private sector/public sector partnerships. I understand that the administration has been working on a policy directive that would permit limited work internships as part of the Summer Youth Employment and Training Program.

What is the status of the guidance document in your department?

Secretary REICH. We are, right now, working very, very closely with the private sector so that public dollars put into summer youth employment can be supplemented by private dollars. Our experience last summer was gratifying in one respect. That is that even though we didn't have the money needed for many summer jobs for disadvantaged young people, the private sector filled much of the gap.

At the local level, at the service delivery area level, with regard to jobs in some of our highest poverty areas, the private sector came to the rescue of many young people. We still did not get as many summer jobs as young people were eligible for. In fact, in many cities, virtually every city I saw, the ratio of eligible disadvantaged young people who wanted summer jobs to the number of summer jobs available ran about two-to-one.

So even with private sector involvement, we were not there, but we are working aggressively with the private sector to make sure that next summer we will have more jobs, even though we will not have any additional public sector slots.

Mr. COYNE. But you are working on a plan to be able to use JTPA Title II-B money in the public and private sector so that participants can take private sector jobs? Is that something that your Department is working on?

Secretary REICH. We are working with the private sector. There is a potential problem with providing money to the private sector for jobs, because then you get into inequities. We have many, many employers now who are providing private sector summer youth employment and if you start paying some of them, then those who are not getting paid begin wondering, well, why is my competitor getting some money and I am not?

Our judgment is that, given that the private sector has been as responsive as it has been, and given that we couldn't possibly provide additional support to the entire private sector, we should save that money for the public sector jobs only where the private sector cannot operate. But again that does not mean, and I want to emphasize, that doesn't mean that we are not cooperating. We are tightly working with the private sector.

It is just that once you get started down the road of providing subsidies to the private sector for what they are already doing, you run into all sorts of problems including the problem that I alluded to with regard to the Targeted Jobs Tax Credit. That is, that they would have done it anyway, and how would you separate out those who would have done it anyway and those who would not.

Mr. COYNE. So there is no ongoing effort in your Department to allow the use of summer youth employment money to place people in the private sector?

Secretary REICH. There is not, but let me make sure that you understand my response, because under current law we do provide some money for on-the-job training. Not just during the summer, but year-round. And we do provide that assistance to the private sector to encourage them to take on people who may not have the skills and give them on-the-job training. That is different because most of the summer jobs are not on-the-job training, *per se*, but the private sector is eligible for that on-the-job training money. And certainly, we could be doing it, and we are actively looking for opportunities for that kind of assistance.

Mr. COYNE. Okay. How do you think we might be able to make youth programs, like the Summer Youth Employment Training Program, into career paths rather than just finite ephemeral experiences? That is, how do we get them into training that will ultimately lead them into something that they will be able to work at for a number of years?

Secretary REICH. The ideal, in my view, would be to combine the summer jobs program with the School-to-work Opportunities Act Program so that young people, particularly in their latter years of high school, can, during the school year, combine work-based learning with school-based learning. A mentor at the work site would be working very closely with classroom teachers, ensuring that what was learned in the classroom and what was learned at work were well coordinated, using the summer job program as a means of continuing that commingling of school and work.

Many young people in disadvantaged areas lose by September much of the learning that they gained by June. There is some back-sliding, given the disadvantaged nature of their environments. There has been much greater success where some educational component is placed into the summer jobs program.

Last year we were very successful. A third of our young people did have some educational component added to that summer jobs program. That would provide, in my judgment, an excellent set of stepping stones toward skills and even, for many of these young people, toward community colleges and 4-year colleges.

Mr. COYNE. Thank you, Mr. Chairman. Mr. Kasich?

Mr. KASICH. I don't know who is busier, you or me, Mr. Secretary. I want to, first of all, express my appreciation for the outreach you are trying to make. We are going to do that. We have got to get together because even beyond the budget, as you make an effort to try to change this program, I think I am going to find myself involved in what we are doing. And I want to be constructive.

And, first of all, I want to tell you that we were in Salisbury, Maryland for a Republican conference, and I think it was either on a Friday or Saturday morning when the Washington Post carried the front page story about your wanting to reinvent the job training programs. I clipped them out and I showed them to our Republican leadership and I said this is really interesting. I thought there were a lot of positive things.

What I got the sense that you did is you were willing to do what a lot of us on this side of the aisle wanted to do. You said look at these programs. I don't think these programs work.

Do they have a constituency? Yes they do.

Am I going to take heat for saying that they don't work? Yes I will, but I am willing to do that. You deserve credit for that.

The area that we get into disagreement, and I am starting to spend more time studying this issue, it is the "carve and spend" philosophy of the administration. We will carve over here but we will spend more over here. And you are moving a number of your recommendations from discretionary programs into new mandatory programs and I wonder whether it would be possible to get you to consider the idea of consolidating more programs, number one.

Number two, turning more authority over to the States with the Federal Government having more confidence that people at the State and local level can manage these programs and get people trained.

I wonder whether you would consider that and whether you would be flexible on that as we get to the process of actually writing in authorizing committees the change in the law.

I also would like to ask you why we are not really following whether people who get trained, get jobs or not? Isn't that right?

I mean, the success of these programs is whether they complete the training, not whether they get hired. And I want to tell you, Mr. Secretary, that you know, I come from Bill Coyne's neighborhood. It is where I was born and raised. And when the wind blows the wrong way out there, people find themselves out of work. And so we both have the same bottom-line goal. We want people to get retrained and to get jobs. I am just not convinced that the Federal Government has had a very good record of retraining and getting people employed in the jobs of the late 1990's and into the next century.

So basically I have two questions: One, do we ever get a score card in terms of the ultimate success rate? And if we don't have a good score card, how do we get one?

And number two, can we move away from Federal oversight of these job training programs and put more confidence in the people who have to live with the problems of unemployment.

Secretary REICH. Congressman, let me answer both of those questions, but you also asked a couple inside those questions.

First of all, we are not seeking a big mandatory program. The President, even with regard to the 5 year window, is talking about an \$11 billion discretionary program. That is just really a few billion dollars over the baseline of \$7 billion with regard to dislocated workers. We are seeking an \$11 billion discretionary program and only \$2 billion over that 5-year period for mandatory, and that is for extended benefits for people in training.

And I said before you walked in that last year the Federal Government spent \$14 billion on emergency extended benefits on top of the \$22 billion the States are already spending. So this is, relative to that, very, very small, and the old program didn't have any training built in or job search assistance or job counseling, helping people get the next job. This program is designed to precisely help people get the next job.

Number two, would we consider consolidating programs? That is the whole idea. What we aim to do with—

Mr. KASICH. More than the six or seven?

Secretary REICH. We want to consolidate all of the dislocated worker programs. There are about six major programs for dislocated workers in the government. We want to put them all together. It shouldn't matter why you lost your job. Taxpayers end up paying 15 to 20 percent of the cost of these programs in paperwork trying to figure out whether somebody qualifies. Meanwhile workers who lose their jobs have to wait 4 to 6 months often to determine whether they are qualified. And a lot of people fall through the cracks.

It is an inequitable situation because you could be working in the same factory and your partner may be working on a line of products that qualifies for a certain kind of Federal benefit with regard to retraining or adjustment assistance, and you don't. It shouldn't make any difference why you lost your job. From the national standpoint, we all have an interest in getting people into the next job quicker. So, yes, we are going to seek to consolidate all the dislocated workers programs.

Your next question was, would we consider giving the States more responsibility with regard to themselves going beyond that and consolidating even more of the programs. This might include some of the programs for welfare and disadvantaged that have to do with retraining through waivers, through coming to the Federal Government seeking waiver authority. The answer is yes. We are going to put waiver authority in these bills so that States can come to Donna Shalala and to me and to Dick Riley and come up with their own creative solutions to helping people get better jobs.

Mr. KASICH. Could I get to you yield on that point?

I am not going to try to delay the process here. It is kind of like a top-down process. Like you have to go to Washington, I am in the States and I have to come to Washington to ask Bob Reich for a waiver to do what I think will get people back to work. It is a top-down process. That is why I don't think these programs have worked very well. Rather than trusting that Carol Campbell or Joan Vonavich or Roy Romers are going to make good decisions, it is the mentality that decisions should be made here, rather than getting where the unemployed folks are out in Columbus, Ohio, for example.

Secretary REICH. The School-to-Work Opportunities Act and the Reemployment Act feature competition between States to come up with their own solutions based on very simple criteria for what outputs we are seeking. Obviously we are not going to throw money in every direction, but if States come up with their own solutions to getting young people from school-to-work which match some very basic criteria, or for creating one-stop career centers, or for helping people get jobs, we may very well accept those creative solutions.

Your final question was do they actually get jobs? What do we know about it? Number one, we know that among the best programs are those where employers are actively engaged in figuring out what they need and they are telling the people and the trainers what to train for. And I have been out on the road seeing those

kinds of programs, and they work, and we want to encourage those kinds of programs.

Number two, in the Reemployment Act, and I want to caution you that it is still on the drawing board, one of the provisions we are seriously considering, and the President is quite enthusiastic about, would be a provision that would provide people with high quality information not only about where the jobs are, but the kind of jobs that various providers of training have done in getting people jobs. Because right now often the real customers of training don't have high quality information about how the providers are doing. Nobody wants to waste their time. Nobody wants to go into a training program where there is not a job awaiting them, where trainers cannot with a great deal of confidence guarantee that there are jobs there.

And finally, the voluntary National Skills Standards Board, which is part of Title IV of Goals 2000, would set up a process whereby industries can, working with people who are engaged in human resource development and other professionals, actually plot where there are skill needs to provide guidance to community colleges and others that are right now many times taking shots in the dark.

Mr. KASICH. I know that my time is expired, but you didn't give me a good example of how we measure if people get jobs. If you ask how many people trained through the Private Industry Council are working, they will tell you we don't know. When I ask why don't we measure and they say we don't know how to do it because people may go across State lines, and we don't have the money to do it.

Secretary REICH. We do that Congressman, we absolutely do it. We judge the worthiness of many programs that are being funded on the basis of their ability to get people jobs. Right now, we are consolidating programs, shifting our investments, using waivers, and providing a single point of contact to facilitate access, while we are developing with the PICs providers standards for judging not only placement but also the duration of placement.

You see, the problem is not just placement. You can skim the cream and place people who are likely to be placed anywhere and then you get a lot of providers who are looking for people who would be easy to place. You want to make sure they are placed in jobs for a long period of time and that we are serving a population that is very difficult to place.

What we are doing in the Reemployment Act and other areas of JTPA is that we want to provide some tough performance criteria that includes not just placement but placement of the difficult to place population.

Mr. COYNE. Ms. Woolsey.

Ms. WOOLSEY. Thank you. And thank you, Mr. Secretary, for being here with us today.

Some Members may be questioning the need for a new and expanded job training program, but for me the answer is quite simple. We have 2.2 million people losing their jobs every year and most of them don't get those jobs back. With our changing economy, we cannot leave these working families behind. And some of our old programs aren't working, and I really applaud your effort

and the administration's effort in this new expanded job training program.

Yesterday, when Defense Secretary Perry testified before this committee, Members warned that our military would soon be a hollow force if we kept cutting jobs in the military. Well, my warning is that if we don't redirect our spending priorities towards truly meaningful programs such as job training, our country could soon have a hollow work force. I think that is our real threat.

Mr. Secretary, we need to train displaced workers for jobs that will actually be there when they have completed training, so that we don't invest our scarce Federal dollars and then not have people ready for a work force that needs them. And I have a training bill, the Displaced Worker Training Act, which places priority on training for jobs of the future, environmental technologies, transportation, computers, and computer software, jobs for the 21st century. How can we link our job training program to creating jobs for the future?

Secretary REICH. Yes, Congresswoman, we certainly can link the jobs, although I caution against trying to link too tightly in the sense that the economy is creating nearly 2 million net new jobs a year. We want to ensure that anyone can get any one of those jobs, regardless of whether those jobs may be created by the Federal Government, State government, or the private sector. We need to come up with a system.

We are intending to come up with a jobs data bank which provides people much more accurate, up-to-date information on not only where the jobs are and what those jobs are, but what skills you need to get those jobs. I want to emphasize again that as I have traveled around the country, I am surprised at the extent to which I am hearing from employers that we don't have enough of the trained people we need.

Ms. WOOLSEY. That is exactly my point.

I mean, but then we could over-train for those particular jobs and then be behind the eight ball because we have trained people for jobs that no longer exist. I really want to protect against that. I would suggest incentive programs for employers to do their own training, because they know what those jobs are, or work with the community colleges so that they are very close to home.

When I was a human resources professional, we had to try to find printed circuit board designers for years. And by the time there were enough education courses, companies had trained in-house, and then the colleges were training apprentice circuit board designers that were no longer in demand. We have to prevent that.

Secretary REICH. Let me share with you an experience I had recently in Chicago at the Chicago Manufacturing Institute. A bunch of employers were complaining that they couldn't get the skilled workers that they needed, but they were beginning to get out of the Chicago Manufacturing Institute and some of the programs the Federal Government and funded by the Labor Department, some of the skilled people they needed, including young people, some of whom didn't have the college or high school degrees.

I asked exactly the question that you asked. How can we be sure that these jobs and training may not become obsolete? How can we be sure that the person who is training beginning now has that

job? And the answer they give me and the answer I heard in California as well when I was out there recently and several times before, is that we need people who are trained to learn on-the-job in particular skill clusters.

In micro electronics, we don't need someone who is a specific specialist in a very particular job; we need someone who has the intellectual and the problem solving tools to continuously learn in our industry because many of those jobs are changing so fast that the old model of education simply didn't work.

Ms. WOOLSEY. I agree with that. So the incentive is to help private industry have trainers to train those outside.

Secretary REICH. I think that your leadership and the work that you have done is enormously useful and important in this area and I look forward to working with you.

Ms. WOOLSEY. Golden Gate University has proposed an innovative job training program in Sonoma County, and this program will train for the jobs that we were talking about. But they are also planning on training entrepreneurs for the jobs that provide most of the employment in this country. Will job training programs like this be able to count on Federal funds under the administration's job training proposal?

Secretary REICH. Yes, but training to start your own business is exceedingly important in today's dynamic economy. We have changed recently the unemployment insurance system so that States can provide unemployment insurance benefits to people who are starting their own businesses and the reemployment system that we will be proposing will also support those kinds of initiatives.

Recently, in a classroom filled with former gang members who were learning mobile electronics, I asked them how many of you want to start your own business? Almost all the hands in the room went up.

Ms. WOOLSEY. Well, that is going to be very positive. I thank you and I really look forward to working with you and the administration in making this successful.

Thank you.

Chairman SABO. Before I call on Mr. Smith, Mrs. Kennelly was unable to attend the hearing today. However, she has submitted some questions in writing for the record to the Secretary. And without objection, the questions submitted for the Secretary will be included in the record.

[The questions and responses follow:]

*Question:* Mr. Secretary, my State of Connecticut has expressed concern about the triggers for the Extended Benefits program. Specifically, the State is concerned that the most liberal trigger's second requirement that average TUR (total unemployment rate) be 110% of either or both corresponding three month periods for the prior two years is an unnecessary impediment to accessing Extended Benefits. This is because improvement in the unemployment rate may be gradual during a long recession. Whereas a 6.5% TUR may trigger Extended Benefits at the beginning of the recession, the same 6.5% may not trigger Extended Benefits three years later during a slow recovery. The same argument applies to the alternative EB trigger which involves the insured unemployment rate. In addition, the insured unemployment rate (IUR) triggers have not been an effective measure of economic conditions because they do not reflect the large numbers of workers who exhaust their unemployment compensation entitlements. I would appreciate your comments on this matter and would hope that you take this issue under consideration in developing the Administration's workforce security initiative.

**Response:** The Advisory Council on Unemployment Compensation has offered some useful recommendations for revising the EB program triggers, so that these additional weeks of benefits will be more readily available in States with high unemployment. The proposals to eliminate the EB work search requirement, improve the trigger mechanisms, and to reconsider the threshold requirements that prohibit a State from triggering on EB unless it has both rising and high unemployment will be closely examined by the Administration.

**Question:** Mr. Secretary, CT would like the qualifying and eligibility criteria in EUCA repealed so that States can apply their own unemployment laws to EB claimants. I would appreciate your comments on this.

**Response:** The Administration has had EB reform proposals under consideration and is continuing to review proposals. The proposal to eliminate the work search requirement is among these proposals; however, the Administration is also waiting to see how States respond to the absence of the EUC program and to opportunities to adopt the optional trigger. Please be assured that the idea of EB reform has not been abandoned.

Chairman SABO. Mr. Smith?

Mr. SMITH OF TEXAS. Thank you, Mr. Chairman.

Mr. Reich, in CBO's evaluation of the administration's health care plan, there were a couple of statements that I would like to read to you. One statement was, "those employers facing an increase in their premiums would probably shift most of the added cost to their workers by reducing cash wages."

And the second statement is that eventually between one-quarter of 1 percent to 1 percent of the labor force might prefer to stay at home if the proposal was enacted. It doesn't seem to me that reduced wages and up to a 1.5 million people being forced to stay home is good news for the American worker.

Would you comment?

Secretary REICH. Yes, let me comment on that because the CBO confirmed the internal estimates that we have, and that is the President's health care plan would have negligible effect on employment one way or the other.

Mr. SMITH OF TEXAS. Why did Mr. Reischauer make these statements if that is the case?

Secretary REICH. The conclusion I gave you is completely consistent with the quotes that you just made. The CBO also found that there would be increases in certain parts of the health care industry, such as home health care.

Although it is said that employers would probably shift the cost to low wage workers, with regard to workers at the minimum wage, the amount of those costs, 15 to 30 cents under the President's plan, is well within the range that our research and also Cord and Krueger and many other researchers who have looked at the minimum wage, find is within a zone in which there will not be negative employment effects.

To state the matter a little bit more directly, and I apologize for the indirect manner in which I just stated it, one could right now raise the minimum wage at least 50 cents without having any negative employment events, so that the 15 to 30 cents increase for small businesses with low wage workers that do not now provide health insurance is well within that safety zone. It would haven't a negative employment effect.

Mr. SMITH OF TEXAS. I am not concerned about the minimum wage effects when I talk about reduced wages and 1.5 million people being forced to stay home. How is that going to be offset in the health care proposal itself?

Secretary REICH. A number of ways. Number one, there will be an increase in demand for certain kinds of health care jobs. Estimates run to several hundred thousand home health care jobs. Businesses are spending billions on health care costs. If you put control on those costs you enable businesses to—

Mr. SMITH OF TEXAS. I hear what you are saying about the additional jobs that might be created, but that doesn't help the people that Mr. Reischauer was directing his comments to. That doesn't help the people that are going to have their wages go down or the 1.5 million people who might have to stay home. Those people are going to be adversely impacted even though other people may find jobs.

Let me ask you a couple of other questions quickly. A recent article said that the administration might be considering requiring Federal workers to make union payments even though they may not be interested in joining unions. Is there any truth to that at all?

Secretary REICH. Not that I know.

Mr. SMITH OF TEXAS. I am talking about a proposed change in the Beck decision. You are not aware of that?

Secretary REICH. I am not. But I will look back at that report and get back to you.

Mr. SMITH OF TEXAS. Thank you.

[The information follows:]

#### BECK DECISION

The Department of Labor is not involved in any discussions concerning proposed changes to the Supreme Court's Beck decision.

The article you referred to might have concerned the report of the National Partnership Council (NPC) that was forwarded to the President on January 31, 1994. In its report, the NPC recognized that union effectiveness is one of the cornerstones of a productive labor-management partnership and requires that strong, professional, financially secure unions are necessary for Federal employee unions to operate as full partners with Federal agencies.

In the "Union Effectiveness" section of its report, the NPC put forth three options under which all bargaining unit employees would pay to help support the representational services provided by the union in their behalf. Option 1 "would provide that for any bargaining unit where voluntary membership among employees has reached 60 percent, all nonmember employees would be required to either join the union or pay a fair share service fee in lieu of dues." Option 2 "would provide that the parties could negotiate a fair share service fee and a fee for individualized services." Finally, Option 3 "would statutorily require that a unit employee pay for individualized services, and permit the parties to negotiate a fair share service fee."

Mr. SMITH OF TEXAS. And lastly, according to CBO again, the Federal Government can save billions of dollars by repealing the Davis-Bacon provisions. Would you favor repeal or would you favor any type of adjustment of Davis-Bacon?

Secretary REICH. The National Performance Review, as you recall, looked at Davis-Bacon and we are looking at it. At this particular point in time, we are not favoring that.

Mr. SMITH OF TEXAS. Do you agree with the CBO figures that the government could save billions of dollars?

Secretary REICH. No.

Mr. SMITH OF TEXAS. This is the same CBO that the President touted as being independent and maybe conservative?

Secretary REICH. The point is we have been looking at Davis-Bacon and those numbers. At this point I can't tell you that I have independent authority with regard to those numbers.

The National Performance Review did look at Davis-Bacon and we are continuing to look at Davis-Bacon, but at this point in time if you are asking me if I agree with those numbers, I have no basis for saying whether I agree with them.

If I may, Congressman, go back to your former point about the CBO and health care because this is a very important point, and it is going to come up again and again, and I want to make sure that I answer your question and make sure that you understand my answer.

The CBO report listed a variety of labor force consequences with regard to health care. If we have early retirement provisions, for example, in which the government, in most cases, picks up 80 percent of the retiree's costs for health care, that is going to result in a net contraction of the labor force and the CBO figured that into its calculations. And so the CBO says, in net, unemployment will not increase.

Mr. SMITH OF TEXAS. I understand that. I hear what you are saying about net employment won't increase, but what I am saying is that there are a lot of people that will be hurt by the health care plan and people who are going to have their wages reduced and those who will be forced to stay home, between one-quarter and a full percent of the labor force. I understand what you are saying. There is not going to be a net decrease, but I am saying that there are going to be millions of people adversely impacted by the health care proposal.

Secretary REICH. I want to emphasize something that I said perhaps before you walked in that there will be changes in the composition of employment because of the health care proposal. Right now, we have many, many people who are reviewing insurance claims, adjusting insurance claims, and all of that red tape. Probably there will be less need for those kinds of jobs, but there will be greater need for primary health care professionals.

Mr. SMITH OF TEXAS. You are saying there is going to be an outset and I am saying that there be going to be a lot of people that are going to lose. I am hoping that you are not going to deny that a lot of people are going to be adversely impacted, at least according to the CBO evaluation.

Secretary REICH. That is why we need, in part, a reemployment system to ease the adjustments that many Americans will have to make from one job to another. But it is the same adjustments they are making with regard to—

Mr. SMITH OF TEXAS. You are not denying that a lot of people are going to be hurt, and that is what I appreciate, even though you have means, you say, to offset that.

Thank you, Mr. Chairman.

Chairman SABO. Mr. Orton—before I call on him, is someone who has no insurance today, who then has self-insurance, and let's assume that had a 15-cent-an-hour impact on their salary, would they be worse off than they are today with no health insurance?

Secretary REICH. No, they would be much better off.

Chairman SABO. Would we save money if we required that all Federal contractors paid no more than minimum wage to any of their employees? I believe we would save money but it would do devastation to the fabric of our society. You have to look not only at issues of equity, but also the macroeconomics.

Secretary REICH. That is right. You have to not only look at the issues of equity, but the macroeconomics of this as well.

Mr. ORTON. Thank you, Mr. Chairman.

And, Mr. Secretary, welcome. We are happy to have you here. I have a couple of questions. The first question is about the Pension Benefit Guaranty Corporation. I don't know if it is within Treasury's or your jurisdiction.

Secretary REICH. I am the Chairman of the Pension Benefit Guaranty Corporation.

Mr. ORTON. Over the last few years I have seen disturbing reports that unfunded or underfunded corporate pension plans range in the tens and billions of dollars, and that the actuarial balance of the PBGC is creeping into the red. And I am concerned whether you believe there is a danger of the PBGC having to be bailed out by the Federal Government similar to what we had to do with the Saving and Loan Guarantee Corporation.

Secretary REICH. There is no cause for alarm at this moment, but there is potential for danger in the future. And Congress should act on the pension reform legislation which we have submitted.

When I became Secretary of Labor, I set up a task force to look at the problem and examine whether and to what extent there was a problem with regard to underfunded pension liabilities. The outcome of that task force was a proposal which we have sent to the Hill, and I believe that it is a very important piece of legislation.

Again there is no present cause for alarm, but unattended, there could be some problems. As the economy expands with low interest rates, this is the ideal for corporations to fully fund their pension plans.

Mr. ORTON. But I don't see that happening widely and that is my concern. What I have seen over the past decade with the flurry of corporate buyouts and leveraged buyouts is the diverting the assets with high future value into one entity and diverting the liabilities, including the pension liabilities, into another entity and then keeping them separate and alive long enough so that the new entities could avoid future liabilities under the PBGC. I have a great concern that what we have done through this leveraged buyout phase is, in essence, shift the long-term liabilities of pension funds on to the government and the PBGC, and I don't see corporations at this point taking the opportunity to fully fund those pension plans.

Secretary REICH. Well, I will agree with you. I don't think that the corporations that have potential problems of underfunding are taking advantage of the present economic climate to do what they ought to do. That is why that legislation is needed, and that is why I urge Congress to pass it.

Mr. ORTON. I would be very interested in working with you to work on that legislation.

I also have another question with regard to the Consumer Price Index. Under the Vice President's Reinventing Government recommendation, one of the recommendations under Department of

Labor was to evaluate and possibly restructure the CPI. I have seen a number of reports indicating that the current method of calculating CPI may, in fact, be overstating the CPI for the purpose of cost of living adjustments, particularly in the area of health care for a number of people who are not required to pay the full cost of health care, partially because they are on Medicare and so forth, and yet that entire inflationary cost is added into the CPI.

I am wondering if you have any personal thoughts on where the CPI is, if it is accurate, if it is high, if it is low, if you have been doing anything about evaluating a restructure of it.

Secretary REICH. We have a reevaluation going on now. It will take a number of years. There is evidence, and I don't know at this particular point in the evaluation process how strong that evidence is, but there is evidence that the CPI is not as accurate as it should be, given the changing nature of the consumption patterns of the average American. And therefore, we are now undertaking a study with the object of evaluating and possibly revising the CPI.

Mr. ORTON. And when do you think—how long is that going to take? Years?

Secretary REICH. I think that will take several years. And we are undertaking it. We have requested funds for 1995 to undertake that revision. The reason these things take as long as they do is because they are based on a great deal of data collection and analysis. The Bureau of Labor Statistics recently revised the Consumer Household Survey on which the monthly employment numbers are based. That was launched in 1987 or 1988.

Mr. ORTON. Okay. I also have not had the opportunity to review your entire written testimony and I don't know if you responded directly on the issue of the 21 different recommendations under the Vice President's Reinventing Government proposal that dealt with the Department of Labor, and I don't know if you would like to mention any of them where you have particular progress or tell us how the progress is coming and what you project the overall savings to the taxpayer will be through this.

Secretary REICH. Congressman, we have adopted most, if not all, of those recommendations. In particular, one of the most important recommendations was a foundation stone of our reemployment initiative that the President will be introducing hopefully within the month. The Vice President's task force recommended that we consolidate the Dislocated Worker Programs, and also provide one-stop shopping for individuals who have lost their jobs. These are individuals who not only need unemployment insurance but also need reemployment services such as job search assistance, training, and extended benefits where appropriate, and that is exactly what we are aiming to do.

Mr. ORTON. I would be interested in seeing update reports as you go on as to the expected savings and the progress in implementing those.

Thank you, Mr. Chairman.

Chairman SABO. Before I call on Mr. Cox, let me express some concern that the review of the CPI takes 4 years. That seems like an awfully long time to me. And the reason I express that concern is that the CPI drives not only our expenditures, it also has impact on our revenues because of all the indexing we have done.

It also has impact in the private economy in its relationship to interest rates, particularly if it is overstated. Everything I hear from the Federal Reserve is that they are responding to assumptions of change in CPI. And if, in fact, that is the case, clearly if there is an overstatement, that has impact I guess, on the expenditure side also because of our own interest costs. They are a significant part of the cost to the private sector.

I think there is broad support for the concept of indexation in this country, but we end up, then, having it determined by formula. And I think it is very crucial that the formula be accurate. And I have heard arguments over the years sometimes that it is too high, sometimes that it is too low.

I know we can never be precise on those kinds of formula, but to the degree that we can be certain that what we are doing is accurate, it is very, very important for us and for the economy.

Secretary REICH. Mr. Chairman, it is vitally important. I will look into the issue of how quickly we can do it. The information I have is that we are doing it as rapidly as we can in our budget submission to OMB, and ultimately the President's decision was to provide additional funding to move as fast as we can in this area, but I will get back to you with an accounting of whether and to what extent it is possible to move more quickly.

[The information follows:]

#### ACCELERATING THE CONSUMER PRICE INDEX REVISION

Unfortunately, BLS cannot accelerate the process of revising the Consumer Price Index because the revision is a complicated series of interrelated labor-intensive activities.

The process of revising the Consumer Price Index entails two critical and time-consuming activities. The first is the reselection of the sample of geographic areas—the new area design—used to represent the inflation experience of the country as a whole. This activity helps to ensure that the cities as well as the specific stores and service establishments in which consumers spend and in which BLS collects data, are truly representative of the average consumer's experience. The notable shift in the U.S. population revealed by decennial censuses over the past several decades make this particular updating activity especially important.

The second critical activity is the updating of the sample of goods and services that are priced and the updating of each item's relative importance in consumer spending to account for changes in these factors that have occurred since the previous revision of the index. This updating of the CPI's "market basket" ensures that the CPI accurately reflects current consumer spending patterns.

The selection of the new area design is a particularly lengthy and complex process which requires data from two surveys, the Decennial Census and the Point-of-Purchase Survey. This process cannot begin until approximately two years after the Decennial Census because population data are needed to select the new geographic areas to be included in the CPI. Because the CPI is so important and because the need to maintain its currency is so widely accepted, work on the first steps in the revision process began in 1992 with the expectation that funds to complete the later, more resource intensive steps would be forthcoming. The major steps for completing the area design with their approximate durations and completion dates follow:

- Select the geographic areas, representative of the U.S. urban population, that will be included in the CPI. (12 months; completed in April 1993)
- Select household samples for those geographic areas to be used in the surveys supporting the CPI, the Point-of-Purchase Survey and the Consumer Expenditure Survey. This is a complex computer process done by the Bureau of the Census which simultaneously selects household samples for several other large, national surveys. (18 months; to be completed by October 1994)
- Conduct a Point-of-Purchase Survey (POPS) in those geographic areas which will be incorporated for the first time into the revised CPI. This survey is conducted by personal interview by the Bureau of the Census for BLS. If Census does not have data collectors in some of the new areas, they will have to be hired and

trained. After the survey has been completed, the processed data are transmitted to BLS. (12 months; to be completed by October 1995)

- Process the POPS data to select a new sample of stores and service establishments in which CPI prices will be collected. In total this process involves selecting more than 25,000 stores and establishments in which 70,000 items will be priced. The items are selected from a framework composed of 350 categories of goods and services. (9 months; to be completed by July 1996)

When this process is completed, the framework for the new area design will be in place. At that point, the second critical activity can begin, the processes to update the CPI's "market basket." The first part of that effort is the updating of the sample of goods and services. This involves two primary steps.

- Contact the stores and establishments in the first set of geographic areas to be incorporated into the revised CPI to obtain their cooperation in providing prices. If cooperation is obtained, begin collecting prices. This initial effort is a survey conducted by personal interview by trained BLS field economists. Again, for new areas, local data collectors must be hired and trained before data collection begins. Further, their initial efforts must be closely monitored. The survey in this initial group of 21 cities includes 6,000 stores and establishments and 16,000 prices. (14 months; to be completed by September 1997)
- Incorporate the new areas, stores and establishments, and prices into the index. This activity requires assuring that the samples are complete. When complete, old geographic areas are dropped and new areas are incorporated. (4 months; to be completed by January 1998)

Simultaneously with the two preceding steps, new measures of the relative importance of different goods and services will be calculated. For this revision, the "weights" given to different items will be calculated from Consumer Expenditure Survey data for the years 1993 through 1995, a period as close as possible to the publication of the new index. Three years of data are needed to have sample sizes sufficiently large to ensure statistical reliability.

These two major projects, introducing the new area design and updating the CPI "market basket," define the critical path of this CPI revision. The revision as currently proposed is following this path, which, unfortunately, is not susceptible to any significant time compression. A revised index will be published beginning in February 1998 with data for January.

CPI revisions also include introducing a new measure of price change for housing and incorporating any technical improvements that will benefit the accuracy or quality of the index. Normally, a new measure of price change for housing would be included in the revised index when first published, and this is how the revision was originally planned when the BLS expected to begin the CPI revision in 1994. However, the 1994 budget decisions did not include a CPI revision, and the project was replanned to begin in 1995. In this plan, the updated index for housing, which is based on a new survey conducted in the CPI's eighty-five geographic areas, will be incorporated into the CPI for January 1999, one year after the revised CPI. This change makes it possible to publish a revised CPI at the earliest opportunity.

Two sets of improvements are scheduled for introduction in this revision, computer assisted data collection (CADC) and conversion of the Point-of-Purchase Survey from a personal to a telephone interview. The introduction of CAOC will improve the quality of CPI data and expedite its transmission and processing. The change to POPS will provide for a better balanced work load for data collectors and a more efficient process for introducing new samples of stores and establishments. Neither of these efforts will impact the critical path for introducing a revised index.

BLS has undertaken the initial steps to begin a CPI revision. This was done so that a revised index could be published at the earliest opportunity.

Chairman SABO. Thank you.

Mr. Cox.

Mr. Cox. Thank you, Mr. Chairman.

My colleague, Mr. Smith, asked you a question that I am interested in following up on. He asked whether you agreed with the Congressional Budget Office's analysis that reform of Davis-Bacon would save us substantial sums. You stated flatly no, that you did not agree with that. I then heard you to go on to say that you were studying it and you didn't have any basis for agreeing with it. Can I infer from this that you don't have any basis for disagreeing, that you simply don't know?

Secretary REICH. I simply don't know. We are looking at it. Prevailing wages in a particular area have been on government contracts for years, partly for equity reasons and partly for macroeconomic reasons, as the Chairman suggested.

Regarding the CBO estimate, I don't know what it was based on. I would like to know more. We are looking at it. But that estimate, even if accurate, is not determinative of the issue obviously because there are many more considerations that bear about the issue.

Mr. COX. The reason I ask it, if I might, is that the President told us in his first State of the Union in 1993 that we were going to be relying on CBO numbers because they were independent and objective. I come from southern California where we are spending billions for earthquake relief. And in the disaster in Guam and Hurricane Andrew, we waived Davis-Bacon rules so that we could quickly recover. The administration seems unprepared to do that.

Secretary REICH. Unprepared to do it in emergency situations?

Mr. COX. The Clinton administration has refused to waive Davis-Bacon for the southern California earthquake. I take it that was for some reason because it has been done in the past for other disasters.

Secretary REICH. Congressman, I will get back to you on that. I can just say and reiterate that Davis-Bacon represents and has represented for many years the government's and the public's decision that prevailing wages in an area should guide Federal contract procurement because the Federal Government has such a potential effect on maintaining the wage performance within an area.

Now in terms of southern California, if the pattern and practice in the past has been to waive Davis-Bacon in other emergencies and there was some movement here in the opposite direction, I just will have to look into it and get back to you.

[The information follows:]

#### SUSPENSION OF DAVIS-BACON FOR DISASTER AREAS

You are referring to the suspension of Davis-Bacon Acts (Proclamation No. 6491, effective October 14, 1992) by former President George Bush in certain areas of Florida, Louisiana and Hawaii which had been damaged by Hurricanes Andrew and Iniki. On March 6, 1993, President Clinton revoked Proclamation No. 6491, to restore application of the Davis-Bacon Act to Federal construction in those areas. The Davis-Bacon Act had been suspended on only two other previous occasions: by President Franklin D. Roosevelt in 1934 and by President Richard M. Nixon in 1971.

When disasters such as the earthquake in Southern California occur, it is important that we all work together and pool our resources to help individuals, their families and their communities to restore their lives and activities to normal and to rebuild damaged areas as quickly and efficiently as possible. This administration moved in immediately to make Federal aid and assistance available. However, restoration and rebuilding should not have to come at the expense of workers, by denying them labor standards protections while they work to rebuild our streets, highways, public buildings and other public facilities. Most of these workers have been affected by the earthquake themselves. They and their families should not be subjected to both their personal losses from the earthquake and the loss of labor standards protections while they work.

Mr. COX. I would very much appreciate that because there is movement and we have asked specifically that that be done and the Clinton administration has refused it. I take that the Department of Labor must have been involved. The Chairman raised a question about inflation and how we account for it.

Davis-Bacon was set up in the 1930's and the \$3,000 limit at which a project is covered by Davis-Bacon hasn't been adjusted for inflation. Would you at least support adjusting that number for inflation so that we are not stuck with this ridiculously low number of 3,000? It should be something like 500,000.

Secretary REICH. The basic principle of Davis-Bacon, that you want to maintain wages in an area and that the government shouldn't be coming in and undercutting wages in a specific area, still applies. Government shouldn't be the reason for lowering prevailing wages in a particular area.

So with regard to what that threshold number should be, I am certainly willing to take a look at it, but there is no preparation under way to change that threshold. The National Performance Review recommended raising the threshold for Davis-Bacon wage rates on Federal construction projects, I believe, from \$2,000 to \$100,000. But the administration has been working, I can assure you, with congressional staff involved in the review of government procurement policies in general.

I have been involved in many of those meetings to formulate a comprehensive proposal for reform, not just of the threshold issue, but other aspects of Davis-Bacon. We share the view, and I don't want you to consider my remarks as recalcitrant in this way. We share the view that there is need to make comprehensive reforms in the act. We tend to work with Congress towards that end.

But with regard to various pieces such as the threshold and the issues with regard to emergencies, they are part of a more general review of Davis-Bacon that is now being undertaken which the Labor Department is obviously actively engaged.

Mr. COX. I see that my time is up. I won't ask another question.

I will conclude by saying that if the Commerce Department is supposed to represent industry, I take it that Labor Department is supposed to represent the American worker. A hugely disproportionate component of the American work force are nonunion members and, therefore, your constituency is chiefly nonunion workers. And taking steps like revoking the Beck notice requirement for Federal contractors, like getting rid of the reporting by functional categories for lobbying, collective bargaining and political advocacy for unions, all of these hurts your chief constituency. And likewise, requiring through Davis-Bacon that we hire union labor when we can do it for much less in Los Angeles and save the taxpayers' money, that also hurts not only southern California but your chief constituency.

Secretary REICH. Congressman, let me respond generally to that.

Our overriding interest, not only at the Labor Department, but also in the Clinton administration, and I would say that it is a bipartisan interest, is to improve the plight of working Americans. I started out this presentation with some charts which should give anyone pause: although jobs are coming back, wages are actually declining for many Americans. To the extent that Davis-Bacon helps maintain prevailing wage rates, that is good for all Americans. And not just good for unionized Americans, it is good for all Americans.

We also want to ensure that American companies treat their workers as assets to be developed, not simply as costs to be cut,

applying to unionized workers and nonunionized workers alike. So we are making great progress, we hope, in beginning to turn around a trend with regard to nonsupervisory workers, in particular, which has been continuing for 15 years in terms of declining wages and declining benefits.

We will certainly review Davis-Bacon, but to the extent that Davis-Bacon helps maintain wages and benefits for all workers, then we are going to maintain those provisions and support those provisions.

Chairman SABO. Mr. Blackwell.

Mr. BLACKWELL. Thank you, Mr. Chairman.

Mr. Secretary, I am delighted to see you here this morning. I know that you are one person who is concerned about the American worker, and I appreciate that.

But I think you have a very tough job, and I just want to talk out loud for a little bit. The fact is that we know the problems we are having with unemployment in this country. I am a 30-year labor leader. I have worn two hats for many years. And we know that automation and computerization does not produce the jobs that we thought they would produce for America.

We know our jobs were shipped overseas to foreign countries. We went so far as to insult the American people by subsidizing shipbuilding in foreign shipyards and unfair trade agreements that would allow foreign countries to ship everything to America, and tell us we couldn't send anything back, so it put America out of work. While we were doing that, our prices went sky high. Now, we come with this word "privatization," all of the world, England, America, all the world, privatization, we are going to privatize everything, what does that mean?

I am sure—you know, I am just talking out loud. Bring the wages down, we are paying people too much. Take the benefits away. Go down to minimum wage. Keep the prices up and go down to minimum wage. Buy out the workers, buy back their contracts and benefits, and then hire people for minimum wage. We know that that is not going to work.

You know what bothers me? I can deal with that because you have to fight the system all the time. It is not the greatest country in the world. In 1992 we had 7.7 percent unemployment. We dropped 1.9 percent. I remember last year, when the administration came in one of the committees. They use this word jump start the economy. I don't like the words "jump start."

It is like with a car, when the guy who jump starts you pulls away, the car stops. What happens when the Federal Reserve system comes in and decides that they are going to stop it and we are going too fast. Mr. Greenspan, a decent man, didn't raise the rates and then we have some economists saying that we have inflation dangers when the unemployment rate is here at 6.25 percent.

Where is it written that the American worker has to pay for all the sins of everyone else and this government? That they can remain unemployed and the Federal Reserve system can make a \$32 billion record profit last year?

Where is it written that they can tell us that the American worker has to stay unemployed or make minimum wage or inflation will

get out of control? Where is it written? Do you agree with that philosophy?

There is something basically wrong that we can have training programs that don't produce hireable jobs. Mr. Kasich and I rarely agree on anything, but we agree on this.

Where are the jobs after we train them? Where is the fair trade agreement that was supposed to happen? And I am sure the administration was trying. I was in Japan, Mr. Secretary, they have 2 percent unemployment and 30 percent per capita income. I talked to the ambassador and he told me what was going on over there.

I asked him how could they dare tell us that we could not sell on their market. He said, "the hell if I know." We have been trying, all I can, to straighten that out. Why do we sweep this under the rug? Why we are having these problems?

The American people and the Federal Reserve are suffering. How dare they say that we have to keep unemployment at 6 percent to keep the economy going. We don't want the Russians employing people. It took a lot of years to get where we are and they are telling us now after they have made all of this money, over the years, that the people who are out of work will have to stay out of work.

It just bothers me when I come here, you know, and I understand that you are trying to do. But I see that after talking about not raising the interest rates, or not raising the employment rate, but turn around and cut the emergency food money by two-thirds. Emergency food money by two-thirds.

There is a contradiction in this government somewhere regarding how we do business. Let the foreigners bring it over, there is a prominent person on Capitol Hill that has an article—I will not name him—who criticized the President yesterday because of what he is trying to do in terms of the fair trade agreement with Japan. I don't know where this person is coming from, but I have a high regard for him.

I don't know where he is coming from. Some say that it is all right for those people to flood our markets and then tell our people to sleep on the streets. There is a \$150 billion trade deficit, which means nothing but jobs. Do you agree with the Federal Reserve system that we have to keep unemployment at 6 percent to stop inflation?

Do you agree with that?

Secretary REICH. I was not under the impression that the Federal Reserve Board or Allen Greenspan had specifically stated—

Mr. BLACKWELL. Not Mr. Greenspan, but you have a Mr. Wiener. He is one of the Fed's experts. Sound the alarm, he says. It is more serious than generally thought. But, he says that inflation dangers appear when the unemployment rate nears 6 percent.

Secretary REICH. Let me just say this, that, first of all, I see no inflation on the horizon, with 8 million people unemployed, and 6 million people working part-time involuntarily, and over a million people too discouraged to look for work. And in our central cities we have millions of teenagers who are jobless. There is no incentive for employers to raise wages because of a scarcity of potential employees.

There is no wage push driving potential inflation at this point. You are bringing up the debate that we in this Nation commenced

in 1946 under the Full Employment Act. And undoubtedly, the first people who are drafted into the inflation fight, when we fight inflation, are the people who are often least able to adapt to joblessness and to afford long spells of joblessness. I think it would be very unfortunate if in this country we were to accept a high permanent level of joblessness as inevitable.

Mr. BLACKWELL. How can we justify raising interest rates when there is no problem?

A year ago we have the Federal Reserve system saying we should raise interest rates even before this administration got started. They use the word "jump start." Do something to get it started, they asserted and they brought Greenspan in and put him on the spot and his board members were miffed because they said that the administration was right. They couldn't wait until we got started just a little bit to raise the interest rates using as an excuse that inflation is right around the corner. Someone should tell me why Japan can have a little growth in their economy and most of their workers are hired for life. They have a little growth and they put it back in the economy and keep their workers working.

We have a little growth in this country and we put it back in the pockets. Banks make \$32 billion, which is obscene as far as I am concerned in a recession, and then we have the people who set the monetary rates in this country saying that we have to penalize labor. We have to talk about this in these hearings so that the American people can understand because no one understands of the role of the Federal Reserve system.

Thank you, Mr. Secretary.

Chairman SABO. Mr. Browder.

Mr. BROWDER. Mr. Chairman, I don't have any questions other than to welcome the Secretary and thank you for appearing before us.

Chairman SABO. Mr. Secretary, thank you. We appreciate the outstanding work you do for the administration and good luck and we look forward to working with you.

Secretary REICH. Thank you, Mr. Chairman, and members of the committee.

[Whereupon, at 11:40 a.m., the committee was adjourned.]



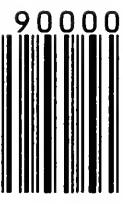
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